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19980605 131

JPRS-EER-93-059-S
Tuesday
29 June 1993

DTIC QUALITY INSPECTED 3

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U.S. DEPARTMENT OF COMMERCE
NATIONAL TECHNICAL INFORMATION SERVICE
SPRINGFIELD, VA 22161

East Europe SUPPLEMENT

JPRS-EER-93-059-S

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*** Investment Developments in 1993 Discussed**
93CH0679C Prague EKONOM in Czech 26 May 93
pp 24-25

[Article by Miroslav Kalous: "Decline or Growth? Question Marks Over Investment Trends in 1993"]

[Text] Restarting growth in the Czech economy is unquestionably the wish of all economists. But whether the prospect is realistic in 1993 is, of course, a matter of very different opinions. While government experts talk about a 1-3 percent growth this year, a number of other economists anticipate stagnation or, rather, a further decline in the gross domestic product [GDP]. Which way the GDP will develop depends on the development of its relatively autonomous components: private and public consumption, exports, and gross investment.

According to preliminary data, the GDP declined in 1992 by 6.7 percent from 1991 (calculated by comparable prices from the year 1984), while private consumption rose by 5.3 percent, government expenditures for consumption declined by 7 percent, and exports fell by 1.8 percent (in current prices). Finally, in regard to investment, owing to a change in the reporting method, it is only possible to estimate a stagnation on the level of 1991.

What is the situation today in the Czech economy in the area of investment demand? How can we evaluate the prerequisites and prospects for investment activity in 1993? How can investment help achieve the desired economic growth?

Basic Problems of Forecasting Investment Demand

In the 1993 Czech economy, the trends in investment demand will be affected by a multitude of variously overlapping, complementary, multiplying, or, on the contrary, regulating factors. The specific nature of investment has always been to provide one of the bridges between the present and the future of every economy. It is the element that, in a complex economic structure, leads to imbalances, yet investment is, at the same time, one of the possible instruments for correcting imbalances. It represents change and progress in the reality of the economy. Even in an economy that is not undergoing fundamental reform, forecasting trends in investment demand is always a rather complicated affair.

In the Czech economy, an added factor to the preexisting situation is the dominant influence of fundamental changes in economic (and above all ownership) relations. The year 1989 also meant a radical change in most economic trends and linkages. Experience with the development of individual macroeconomic measurements in the course of the business cycle in the conditions of the Czech economy, together with a new system of ordering the economy, is being assembled gradually. Meanwhile, a stability of economic and ownership relations, assumptions about the future development of the

economy and demand, and prospects for financing remain the basic factors in decisions on investment.

In what situation, then, are the individual economic subjects in the Czech economy at present? Here we consider the government (direct state investment or state subsidies to other investors), cities and communities, state enterprises, enterprises privatized in the first wave, private investors, foreign investors, and budget-supported, self-supporting, and public-benefit organizations and cooperatives (primarily agricultural). From the perspective of financial resources, one can basically include profits (including write-offs carried out), credit opportunities, state expenditures, and foreign capital.

The Investors...

With some certainty, an unfavorable trend can be forecast for 1993 in direct state investment—the approved state budget does not envision growth in investment outlays over the past year. A supplemental increase in outlays does not seem realistic, minimally due to the anticipated difficulties in safeguarding the revenue side of the budget. Also, investment demand will hardly be significantly revved up by municipal and local investment; the state's investment subsidies to city and community budgets were reduced from 1992, and alternative sources are in short supply. A similar situation faces the budget-supported and self-supporting organizations, including the so-called public-benefit enterprises.

As for the cooperatives (primarily agricultural), the state enterprises, and enterprises privatized in the first wave, their ability to impart dynamism to investment demand is hobbled especially by the ongoing (in regard to state enterprises not even initiated, except for the first wave) changes in ownership relations. That limits opportunities to carry out new and especially more ambitious investment projects. At the same time, that puts off infusion of foreign capital into those enterprises, whether in the form of setting up a joint venture or in the form of loans and so on. Suspension of the bankruptcy law similarly failed to clarify the latitude the enterprises have in the investment area. In a purely commercial situation, a substantial indebtedness ought to act as an antistimulant to the granting of credits to enterprises by financial institutions. Here the time element enters the fray: A certain delay in completing the investment project is to be reckoned with. Thus, a possible increase in the investment activity of the subjects mentioned above can be envisioned no sooner than in the second half of 1993.

Hence, in this situation, the engine for increasing investment demand in 1993 should of necessity be primarily the private investors or foreign firms. However, estimates of their investment activity are necessarily quite difficult because they are essentially based on a number of debatable assumptions and factors that can be judged only with great difficulty. That also concerns the so-called influx of foreign capital.

According to a widespread view, in recession time, firms invest primarily with an eye on achieving real profits, whereas, in times of recovery, their investment decisions are guided by anticipated sales. But knowledge of what motivates firms in that area is still rather spotty. Another question is how those firms will conduct themselves within the overall context of the economy's performance; a potentially dynamic growth of their share in total production also means a dynamic growth in their sales (and thereby more room for investing). But their decisions will be influenced by a number of other circumstances that are difficult to anticipate. The overall trend in consumer demand is one of them. Finally, it is a question of whether the potential growth of private and foreign investment will merely compensate (and to what extent) for the decline in the investments of state enterprises, cities, communities, and budget-supported and self-supporting organizations. Nor will the investment demand in 1993 be invigorated by transferring supplemental funding of the former KBV [expansion unknown] to the self-generated revenues of cities and communities (without a subsidy from the state budget) or by cutbacks in cooperative housing construction. But, of course, in 1992, the share of housing construction was only about 4 percent of total investments.

Thus, the forecast of the trends in investment demand in 1993 (especially in the first half of the year) is basically unfavorable from the perspective of developments to be factored in (delay in the acceleration of potential influx of foreign capital into the Czech economy, effects of the bankruptcy law, costs resulting from the division of the CSFR, a potential slump in trade with the Slovak Republic, and so on).

...And the Sources of Financing

At present, one cannot expect the state to provide impulses on the expenditure side to revive investment demand. Also, the financial resources of the cities and communities will not in 1993 play the role of an invigorating agent in investment demand; the primary source of financing their investments in 1992, the state budget, has reduced its subsidies, and their own resources (management of cities and communities, property levies, bonds, and the like) are weak and institutionally not fully developed.

There can be a discussion about the internally generated resources of Czech enterprises and firms, including small and medium-size entrepreneurs. In my opinion, the wave of founding investments has already passed its zenith, and further investments in that area will be tied

primarily to the proceeds from business (thus ultimately depending on trends in demand—consumer demand, in particular) or, possibly, albeit to a lesser degree, to potential government assistance to forward-looking projects. But, given the relatively high indebtedness of the Czech enterprises, an assumption that they can expand their own resources to finance investments (considering the uncertainty of further developments) does not seem realistic. Also, the government-sponsored amendment to the law on bankruptcy and settlement tends to put off investment decisions rather than the other way around.

So the problem of invigorating investment demand is at present concentrating on the issue of commercial credit opportunities and further on the issue of the extent and forms of the infusion of foreign capital into the Czech economy. The credit opportunities are, of course, circumscribed on the enterprise side (insolvency, repeated uncertainty about trends in demand, still incomplete resolution of ownership and management relations), as well as by the relatively high cost of credit, which does not correspond to the declining trend in the value of the currency. The availability threshold for commercial credits even for a number of highly promising projects is relatively high. Nor can one overlook the macroeconomic aspect: the growing gap between the volume of the GDP and the volume of credits extended over the past two years is a fact, although a certain improvement could be observed in the last quarter.

So the question of more extensive investment activity by foreign firms is one of the factors that are exceedingly hard to estimate in forecasting the further development of investment activity in the Czech economy; the issue is not only of those expected investments but also of their multiplication effect on domestic production.

To begin with, working against a more significant expansion in the immediate future are time slippages between the proposal, negotiations, and the preparation and execution of investment projects, including a timetable for investment outlays.

In regard to the investment activity of foreign firms, there are differing views concerning economic trends and their forecast in the Western countries: Less than optimistic prognoses about developments there may put a brake on the activity of Western firms but may also stimulate their investment in potential future Eastern markets. Yet it should not be totally overlooked that signals about more substantial foreign aid have recently been intermingled with voices suggesting that the East European countries ought to help themselves....

Investment Trends in the Czech Republic, 1989-92

Period	Investment Volume (in Million of Kcs)		Price Index	Index by Comparable Prices		
	In current prices	In comparable 1989 prices		Same period 1989 = 100	Same period of prior year = 100	Average quarter 1989 = 100
1989	119,527	119,527	100.0	100.0	100.0	x
1990	130,213	126,032	102.5	105.4	105.4	x
1991	128,525	79,410	161.0	66.4	63.0	x
1992	176,260	99,920	176.4	83.6	125.8	x
1st qtr. 1989	20,174	20,174	100.0	100.0	x	67.5
2d qtr. 1989	30,007	30,007	100.0	100.0	x	100.4
3d qtr. 1989	28,615	28,615	100.0	100.0	x	95.8
4th qtr. 1989	40,731	40,731	100.0	100.0	x	136.3
1st qtr. 1990	21,893	21,784	100.5	108.0	108.0	72.9
2d qtr. 1990	29,501	29,354	100.5	97.9	97.8	98.2
3d qtr. 1990	30,116	29,966	100.5	95.3	104.7	100.3
4th qtr. 1990	48,703	44,928	108.4	110.3	110.3	150.4
1st qtr. 1991	24,191	16,246	148.9	80.5	74.6	54.4
2d qtr. 1991	33,037	20,431	161.7	68.1	69.6	68.4
3d qtr. 1991	30,396	18,300	166.1	64.0	61.1	61.2
4th qtr. 1991	40,901	24,433	167.4	60.0	54.4	81.8
1st qtr. 1992	24,420	14,339	170.3	71.0	88.3	48.0
2d qtr. 1992	35,827	20,496	174.8	68.3	100.3	68.6
3d qtr. 1992	36,460	20,561	178.2	71.9	112.4	69.4
4th qtr. 1992	86,705	47,561	182.3	116.8	194.6	159.2

Source: Statistical Information, Czech Statistical Office: series 8—investment; own calculations.

Note: Due to a change in the reporting method (changed to the index of investments billed), data for 1992 are not fully comparable, and a certain overstatement of the 1992 data may be assumed (delayed billing from 1991). Quarterly data for 1992 are not purged of the value of acquired already existing capital assets (purchases, transfers).

What Next?

The developments sketched above do not sustain a notion of a significant invigoration of investment activity in the Czech Republic in 1993 (especially not in the first half of the year). Waiting for foreign investments does not yield significant results at this juncture. For many reasons cited above, domestic investment impulses continue to weaken. The result is a persistent and potentially deepening investment recession, combined with the possibility of a further decline in the overall performance of the economy (an investment decelerator).

Another grave consequence of the anticipated developments is a further increase in the relative technological obsolescence of the Czech production base, which may put an additional limit on the competitiveness of Czech goods and thus become an instrumental factor in the further decline of the economy (falling exports). In the context of a continuing recession in most Western economies, particularly in the western part of Germany, such development cannot be ruled out, either.

An invigoration in the investment sphere can be essentially tied to either an overall invigoration of the

economy (the expectation factor) or to a deliberate investment impulse (the so-called autonomous investments).

Thus, it is possible to visualize an invigoration of investment activity only if there is a confluence of low inflation, an upturn in the sphere of production and consumption, a speedy resolution of the problem of enterprise indebtedness, a reduction of the real interest rate, an increase in government support for small and medium-size entrepreneurs, and, finally, an increased infusion of foreign capital.

But, at the present time, another step toward invigorating investment could be public as well as private investment in the obsolescent infrastructure, even at the expense of a certain increase in government debt, a step the government has so far been resisting. If economic history has anything to say, it is that those investments, provided they are targeted carefully, always pay off, not to mention their multiplying effect on demand. The government still remains practically in control of the largest share of assets in the Czech economy and thus is also the largest potential investor. If the government

assumes that private entrepreneurs facing difficult conditions will borrow to expand their businesses, and if it regards those credits as a natural way to revive the economy, it might well begin to act similarly, the more so because the present infrastructure is indeed a brake on potential economic development, and no one will absolve the government of its responsibility for that development.

* Prime Minister Comments on Wage Regulation

93CH0699B Prague CESKY DENIK in Czech 4 Jun 93
pp 1, 12

[Article by Vaclav Klaus, prime minister of the Czech Republic: "The Regulation of Wages"]

[Text] For a considerable period of time, we have been vexed by the development of wages, and each additional and more recent statistical report tends to convince us that the situation is becoming increasingly serious. Let us therefore attempt to review a few fundamental, virtually textbook-type truths, which are unfortunately, at the very least, overlooked by critics of government policy.

First, it is necessary to recall how wages should be developing "normally" so that they will not act in a destabilizing manner.

On the one hand, wages are a macroeconomic quantity, one of the most significant components of overall demand. If wages grow (given a constant inclination toward savings) more rapidly than the supply of consumer goods, a general imbalance develops, which leads to an increase in prices (so-called demand inflation) and possibly can also exert pressure on imports and an imbalance in the balance of trade (and, in the final analysis, leads to devaluation of the currency). I would hasten to say that, at the present time, we do not consider that to be a significant problem, that the possible revival of consumer demand does not bother us (as long as all of it will not be fleeing into imported products), and that we are able to eliminate that influence if need be through a rational policy involving the state budget.

On the other hand, wages are a microeconomic quantity, reflected in the cost of products, in prices, in profits, in the financial situation of enterprises, and in the salability of products at home as well as abroad. The neutral action of wages means that wages will not act to increase individual costs. (Average wages in an enterprise will grow at the same pace as productivity of labor.) It is not necessary at this point to note the theoretical finer points regarding the relationship of wages and productivity of labor because, for practical and relatively "gross" considerations, the previous thesis is fully applicable (and suffices). Nevertheless, I must hasten to say that it is precisely that factor that we currently consider to be an extraordinarily significant problem, that the growth of wages in a number of enterprises (and we are now speaking of the production enterprise sphere) is far

outstripping the growth of labor productivity, and that costs are rising and are simultaneously causing the following:

- Price rises (so-called cost inflation).
- A deterioration in the financial situation of enterprises.
- A deterioration in the salability of products at home and abroad.
- A deterioration in the position of individual enterprises at home and the competitiveness of our entire economy abroad.

The state has no solution and cannot have a solution for that situation. The microlosses of individual firms mean that the firms themselves are forcing themselves out of the market. They are the only ones that will pay that price. To the extent that that is also done by firms that are oriented toward exports, all of us will pay the price together with them. The final consequence could be nothing other than devaluation and all of its accompanying unfavorable consequences.

Let us note that we are constantly stressing the relationship between wages and prices and that we do so precisely in that sequence—wages push prices if they grow more rapidly than what we are producing, if they grow more rapidly than the productivity with which we produce our products. The trade union organizations had persuaded our predecessors that, without regard to how the product and productivity were growing, it was necessary to monitor the opposite relationship—namely, the relationship of prices to wages. If prices increase, wages should also rise. However, that is a totally opposite view of the world and virtually represents directions for cost inflation and thus an inclination toward a dangerous inflationary spiral. If we do not succeed in changing that, we shall not have the slightest chance of creating a Czech "economic miracle." I use that term deliberately. Last week, I was in Germany to accept the Ludwig Erhard Prize and I was reminded that Erhard's German economic miracle was based on the fact that, for an entire decade, wages were growing a bit more slowly than was productivity. I cannot believe that it would not be in the interest not only of the citizens of our country, but also of employer organizations, in particular, of the trade unions as representatives of employees, for that precise thing to occur in our country. That is why, for the remainder of 1993, it is necessary to find a new consensus with the trade unions and to prepare an entirely new general agreement for 1994.

Thus far, we have said nothing about the reason wages are growing so specifically in some enterprises. Trade union pressure (and concluded collective agreements) are only one side of the coin. The obverse side is either weakness on the part of management (and weakness among owners) in resisting that pressure or a short-sighted view of the world (satisfying the stronger pressure in the hope that increases in costs will be concealed in prices without a loss of sales, without causing the

financial situation to deteriorate further, without limiting additional expenditures of the firm that have been necessary for a long time) or a deliberate weakening of enterprises. (In a situation in which privatization processes have not yet been concluded, the founding ministries are functioning as owners only in a limited manner, and the principal owner, the Fund of National Property, is not functioning as an owner at all).

In that situation, there is no choice but for the state, as a representative of all citizens, to act accordingly and to begin regulating wages. Wage regulation would be a highly unliberal measure in a standard owner-stabilized market economy, but it is not an unliberal measure during the period of the privatization processes, the period of privatization waiting, and the period of pre-privatization anarchy. That is why such regulation of wages that would intervene in those enterprises where there is express disharmony between wages and productivity must be introduced without delay.

*** Implementation of Health System Examined**

*93CH0679D Prague EKONOM in Czech 26 May 93
pp 36-39*

[Article by Libuse Bautzova: "Health System at the Beginning of a Long Road"]

[Text] Those who had occasion last year to come into closer contact with our health system as patients probably did not notice any significant change from the situation that existed there in the years before. But the fact is that, unlike in some other areas (education, for instance), in the health system there have been (or rather should have been?) changes of a downright radical nature. Transformation of the entire health system by means of a new method of financing and the privatization of health facilities understandably has as its goal improving the care of the population's health. But the present state of affairs can be characterized by dissatisfaction on the part of most health personnel and a shortage of funds on the one hand, and payers lamenting over the amount of premiums for health insurance on the other. Then all in unison, as is now the fashion, reproach the Health Ministry for lacking a credible and responsible plan for managing the system.

So is it true that changes in the health system are being made rather haphazardly and without coordination? Is it really so that there is not enough money for the health system, or is that shortage only relative stemming from poor management and ineffectual "redistribution processes" within the system? Will the situation be helped by privatization, which, until now, has been rather problematic?

In every country, the quality of the health system is measured by the network of health facilities and the way they are equipped, and also by the state of the population's health. Both factors are, of course, connected, while it is decidedly not the case that a greater number of

hospitals (beds) per thousands of population must unconditionally mean better care of people's health.

Situation at the Start

As of 31 December 1990,, there existed in the CR [Czech Republic] 93 health facilities (legal entities) managed by National Committees and 49 run directly by the Ministry of Health. Kraj institutes of national health were abolished only toward the end of 1990, and, in the following year, the okres institutes broke up into smaller independent legal entities. At the beginning of last year, we thus had more than 900 health facilities with the status of legal subjects (of which more than 700 were managed by okres governments and the rest by the CR Ministry of Health).

By 31 December 1992, the number of independent legal entities managed by okres governments had grown to 833, and 179 facilities were managed directly by the ministry. At that time, nearly 3,000 private health facilities operated outside of the state sector.

Toward the end of 1992, there existed in the CR a total of 179 state hospitals and three private (Tabor, Plzen, Zabreh na Morave). State hospitals had a total of 84,800 beds (8.2 beds per 100 of population), and 289 beds were transferred to the private sector by year's end. The average hospital stay in the CR was 11.6 days (state facilities), while the available bed capacity was utilized only to 74.4 percent.

Ambulatory care (state sector) was, as of 31 December 1992, provided by a total of 18,017 physician-staffed locations, which represents 17.5 such locations per 10,000 of the population.

During the second half of 1992, the number of physician-staffed locations in state facilities of ambulatory care dropped by 1,222; that meant that roughly 1,600 doctors as individuals moved to the private sector.

What called most insistently for a radical change in the health system after the 1989 "revolution" was the issue of financing. Direct financing of the health system from the state budget had to be replaced by a system of health insurance companies. In 1992, the General Health Insurance company [VZP] was, of course, still drawing on the state budget for financing and subsequently redistributed funds to the health facilities. In 1991, public health expenditures reached 38.2 billion korunas [Kcs], of which noninvestment monies and operating subsidies represented Kcs32.6 billion, and Kcs5.6 billion was for investments. In that year, per person expenditure in the CR was Kcs3,709.

The Ministry Has a Concept

Yes, the Health Ministry does have a concept. More precisely, its name is "Concept of Developing Health Care." But not even roughly the sixth draft of that material, according to the Ministry of Health, need be final and "definitely is not for use in the press" (what

may it contain?). It should be reviewed by parliament in the near future. At any rate, the folks have done their duty, the concept was prepared, and surely it depends more on how successful the "realization of the goals of transformation" are, in practice, than on its quality.

In any event, one has to allow right from the start that probably not everything is going the way the Health Ministry and the Ministry for National Property Administration and Privatization had imagined it would. After setting loose the institutes of national health, with the somewhat opaque operation of the VZP, with a low and rather clumsily managed (because poorly prepared in the first place) privatization and forcing doctors to concern themselves not only with the health of the population but involuntarily also with matters outside of their competence, it may seem that in many respects the situation is perhaps even worse than it was a year or two ago.

It is amazing that the most recent public opinion poll nevertheless showed the majority of the CR population satisfied with medical care. Those who are perceptibly less satisfied are the doctors themselves.

Ever More Money

So what is the sum total of funds with which our health system will have to make do this year? If we add up all of the items, we find that, for the care of our health and everything connected with it, we have available this year at least 61.8 billion korunas [Kc]. The Health Ministry's budget (Kc6.1 billion) covers, for instance, statistical and information services, medical schools, the operations of the hygienic service, AIDS prevention, the air-rescue service, the National Center for Health Assistance, the State Institute for Drug Control, the Czech Red Cross, the Czech Medical Society, and others. Territorial budgets (Kc2.2 billion) covers, for example, physicals for recruits, medical attestation services, certain institutions for long-term medical care. And, finally, through health insurance (including the government subsidy, which accounts for approximately one-third), the revenue fund of the VZP takes in Kc53.5 billion.

It is of interest to note that last year the total budget for health services amounted to Kcs43.6 billion: the Health Ministry's budget, Kcs5.5 billion; territorial budgets, Kcs5.6 billion; and the VZP budget (only funds allocated by the government), Kcs32.4 billion.

How is it possible that, in recent times, doctors view the situation so gloomily, and some hospitals are almost at the brink of collapse when—and that is no secret or stealthy fabrication—economic calculations show that Kc53.5 billion for noninvestment spending on health services can in no way (even if all influences are factored in) mean less money for the system? As one of the possible causes, one can look at the VZP, whose purchase of a new headquarters has earned it the reputation of an irresponsible spendthrift institution that ought to be exposed (even though it has hardly begun its operations)

to the same curative process as the EBRD [European Bank for Reconstruction and Development].

A General Health Insurance Monopoly?

The VZP began operation on the basis of Law No. 551/1992 of the Law Gazette on a General Health Insurance entity in early 1992. But it did not start with the accounting for advance payments to medical facilities until 1 August 1992.

At present, there are, in addition to the VZP, 17 employee insurance companies in the CR. They are legally independent, but the law requires them to transfer part of their revenues to the VZP, where they are redistributed according to a "special account."

The VZP has some 3,700 employees, of whom 200 work in the Prague headquarters. It is said that, in addition to the grand purchase of a building in the center of Prague for Kc350 million (with another Kc80 million still to be invested in the premises), the VZP has scored yet another "success": It purchased computing technology for roughly Kc1 billion, which, however, it was unable to get going for an inordinately long time, and the accounting of point values for the last quarter had anyway to be done manually on calculating machines.

But, as VZP director Eng. J. Nemec has stated, 3 percent of the VZP budget is allocated to operating costs—that is, approximately Kc1.5 billion, from which will also be covered a nine-year loan that the VZP obtained for similar purposes. Supposedly, the purchase of the building can pose no threat to financing the health system. Well, so be it. But, in any event, one would nowadays expect from an institution of this kind that it will stay somewhat closer to the ground and, to the extent possible, save on expenses.... And, if there is enough money from the payers while the health system is still short, that suggests that there may be some truth in concluding that the VZP is gobbling up more than the state apparatus consumed in past years. An effective oversight of VZP management, demanded especially by the Czech Chamber of Medicine, can surely cause no harm....

As concerns the other insurance companies, they must by law provide the same services as the VZP, but then they actually do not offer anything special beyond that. While all insurance companies may offer supplementary coverage, in the situation here, with the entire scope of health care, with only minor exceptions, covered by legally required health insurance, there is hardly any room for supplementary coverage.

A certain parallel comes to mind—as though the state monopoly were replaced by a VZP monopoly. And, like in the good old days, we are all equally well off. It needs to be added that the administration has grown in size somewhat so that we are all equally well off but a little worse off.

Chasing Points

Aside from the building on Na Perstýne Street, one can clearly see one more fact, which is the drop in the value of points earned for medical services. The closing balance for the fourth quarter of 1992 set the haler value of points lower than in the preceding period, which was in connection with the greater number of points claimed. The point value was set at 34 halers in medical facilities and 45 halers for contract physicians. (In that context, it should be noted that the Czech Chamber of Medicine regards that distinction as inadmissible.)

According to Eng. Nemec, the number of points claimed for that period was up by 25 percent. The drop in the point value, or the point inflation, is explained by the Health Ministry as due to several causes:

- 1) Not all services were reported in the past.
- 2) More people were sick (the flu).
- 3) Expensive diagnostic technology was used, which is assessed more points. And one must add that some points are claimed improperly.

As a consequence of the drop in the point value, some hospitals have run into even greater problems because they must return part of the advances they received from the insurance company. A detailed survey of those facilities is not yet available, but one can assert with a degree of certainty that a sum of Kc700 million is involved, which the debtors—the medical facilities—must return and the same amount be paid to those who “earned money.”

Health services personnel and also we, the (potential) patients, can see ourselves the value of a point is expected to rise moderately in the coming quarter.

Health Minister Petr Lom is convinced that “the point inflation needs to be regulated.” Under consideration is some kind of cap on the volume of health services, which would still be paid by the basic rate, with everything in excess of this limit paid by a lower rate. There is also to be a change in the entire catalog of medical services, which now lists some 4,000 items, and patient copayments are under consideration.

According to Dr. Lodinova, spokeswoman for the Health Ministry, the entire issue is, of course, still to be reviewed by expert organizations, which will set the limits of the patient's financial participation. In a similar way, the possibility of introducing a so-called hospitalization fee, common in many countries, is being considered.

The present system of point evaluation of medical services has proved totally unsuitable for the purposes of medical facilities, so that the thinking now is of a system of so-called aggregated payments, later payments per diagnosis. Thus, instead of individual services, materials used, and so on, the hospital bill will record a single indicator—the price of a specific diagnosis, which will

already include all of those items. For ambulatory care, it is contemplated to introduce per person or so-called per head payments.

However, according to Minister Lom, all of those changes are unlikely to come under consideration before the end of 1993 or the beginning of 1994.

What We Are Not and What We Cannot Afford—Or the Political Dimension

Given the current shortage of money (regardless of whether absolute or relative) in the health system, it is necessary to seek new sources of funding. There is talk about multisourced financing of the health system, but that should not be understood to mean only the share of state budget and community budgets in financing health care. It is precisely the patient's participation that can and must contribute significantly to ease the situation. That includes the possibility of paying for a portion of the cost of some medical services or taking out additional insurance to cover them.

One must proceed from the fact that everyone has a different scale of values; there are many people who place health on the top of the scale and are willing to pay good money to maintain it. For them, doing so may even be to some extent more comfortable. There is nothing immoral or incomprehensible in that. Adequate care of oneself cannot include every state-of-the-art examination or medical treatment that may be less painful or more skilled but is more expensive.

That may be hard to understand for someone who has spent his entire life in a socialist society, which boasted of free medical care and offering the best to everyone. It could look that way, but reality was understandably different. If we look at health care through the prism of a market economy, each country has the kind of medical care for which it has earned the money. If our GDP is not as high as that of the Federal Republic of Germany, we cannot expect the same health care. Even with substantial participation of patients it will take quite a few years to arrive at a comparable level, whether in terms of hospital equipment, the array of pharmaceuticals, or doctor salaries....

And that is something someone ought to explain to the nation.

Privatization Confusion

During the past year, privatization was let loose, and by fall many among the health services personnel had a relatively clear idea of how they visualize the future of “their” health facility. Up to now, approximately 5,000 privatization projects have been submitted to the privatization ministry for approval. The Health Ministry gets to review only projects that include patient beds or facilities, the prevailing form of privatization is direct sale to an owner, determined in advance.

At present, privatization projects are reviewed by branch commissions of the Administration of National Property and Privatization and the Ministry of Health. It is reported that roughly one okres of the Republic comes under review each week. "Privatization is a dynamic process, the bulk of which will take place in 1993 and 1994," says Petr Lom. I should add that, even by the end of 1994, we will surely not be able to say that privatization in the health services has been completed.

If anyone feels that this expectation is overly pessimistic (the deadline for founders to submit privatization projects was extended from 7 October to 31 October 1992), the following explanation is in order: Privatization has somehow run into a roadblock. Only after most of the privatization projects were prepared, officials managed to arrive at a not-so-surprising conclusion: For privatization in the health services, it is necessary to set certain criteria that would facilitate the review-and-approval process.

According to some opinions, in determining preference for those submitting privatization projects, the first consideration ought to be given unequivocally to doctors, nurses, and other health personnel working in the health facilities for which privatization is being sought. Only at the bottom of the ladder would then be nonmedical people of all categories who are interested in taking over a health facility and operating it.

In that context, special attention should be paid to cities and communities. Their job is to maintain facilities offering health services also in places where operating them is not (or can be) financially successful but where the issue is the public benefit from such facilities and the interest of citizens-voters.

An important criterion in approving a privatization project should be the entrepreneurial intent. With all due respect for the mass of work being done by the people reviewing privatization projects, I rather doubt that any of them are capable of judging which entrepreneurial intent will turn out better in the future, which will actually be carried out, or which is at all capable of being carried out.

But, without regard to the quality or credibility of the entrepreneurial intent, it is imperative to maintain the precise structure of the proposed project. Proponents of privatization projects are required to present detailed documentation, often including data that had not even been collected in the health field. If the proponent, in an effort to meet the requirement, tries to fill out every column, it is hard to judge how much of the data is truly credible. Ultimately, what applies in this case, too, is what was raised in the preceding paragraph: Who in this country really understands the economics of health care and is capable of correctly evaluating the information that is presented?

Returning privatization projects for additional work on them is then also one of the factors delaying privatization. Quite often, the requested supplement to the project actually means elaboration of a new project.

Free and Mandatory

Government Decree No. 137 of 24 March 1993 lays down rules for the further process of privatization in the health services, in the form of dividing health facilities into categories A, B, and C.

Category A includes health facilities freely privatized, in regard to which it is not necessary to regulate the structure and scope of the health services offered. (They do not have a monopoly position in the given area.) Nevertheless, the purchaser must use the acquired property to provide health services for a period of at least 10 years.

Health-care facilities privatized with a mandate form category B. Those are installations where, for certain reasons, it is necessary to insure contractually the structure and the scope of the care offered.

In category C are facilities that cannot be privatized and those not yet privatized. They may be further divided into those that remain permanently nonprivate for reasons of the state administration's exercise of its responsibility and control in the area of public-health protection (the State Institute for Drug Control, hygienic stations, and the like), facilities at present not subject to privatization for reasons of beneficial government participation in their operation (if their activity is in some way exceptional or unique), and facilities excluded from privatization (university hospitals, certain other hospitals, institutions for long-term medical care, and the like).

Classification of health-care facilities into the individual categories is determined by the Ministry of Health, which also determines the specific structure and scope of health care provided by category B facilities.

The result of all of this year's doings, when principles and criteria began to be applied ex-post instead of ex-ante, is confusion. There are even doctors who today dread the notion that a privatization project they worked on and properly submitted more than a half-year ago might be approved....

Of course, it needs to be said that privatization under conditions that apply today solves virtually nothing; the partner of the doctor, whether private or government, is instead of the patient always only the VZP (in the given system, other insurance companies play no role). Privatization in those circumstances can merely prepare the ground for future development. Privatization is only the beginning of it all.

Investments, and So Forth

The paragraphs above certainly make no claim to being regarded as an exhaustive analysis of the situation in

health care. We could concern ourselves also with the list of installations still slated for investment this year (the Motol [sanitarium] alone will require nearly Kc800 million korunas this year), with the planned construction of a hospital for foreign clients, or with, perhaps, the scheduled salaries of doctors, according to which, for instance, the head of a surgery department draws one one-hundredth of the salary of his Austrian colleague....

It is understandable that, in health care, the purely economic aspects cannot be applied ad absurdum. On the other hand, health care, too, is a part of the market economy, and, alone, the introduction of its elements, especially in the payer-insurance-doctor relationship, may bring desirable changes.

It is necessary to arrive at an optional level of insurance premiums, the establishment of insurance companies with genuinely independent management, free of any dependence on the VZP, and a differentiation in the relations between insurance companies, doctors, and health facilities. If we know where we need to go, all that is necessary is to choose the correct paths to take us there.

**Comparison of Certain Health Care Data
for Selected European Countries**

	Number of Beds per 1,000 of Population	Average Duration of Patient's Treatment (Days)
The Netherlands	4.3	11.2
Denmark	4.9	6.9
Finland	5.2	8.9
Norway	4.0	7.5
Sweden	4.5	7.1
Romania	8.9	10.9
Lithuania	12.4	17.8
Hungary	6.9	11.9
CR	8.2	11.6

**Structure of Health-Care Personnel
by Categories at End of 1991
and Beginning of 1992**

Technical and business administration	6.35 percent
Operations	24.25 percent
Medium-skilled health-care personnel	43.68 percent
Lower-skilled health-care personnel	1.88 percent
Pharmacists	1.55 percent
Auxiliary health-care personnel	4.13 percent
Doctors	14.53 percent
Others	3.63 percent

[Box, p 38]

A Practitioner's View

Dr. Vaclav Drahonovsky, head of the surgery department at a hospital in Prague 9-Vysocany:

I believe—and it cannot be otherwise—that the entire health system must yield a profit. That is because the health of the population depends on it, and it is in the interest of the whole society that the average duration of absence from work be as short as possible. When everything is added up, each one-tenth of a percent is reflected somewhere. But, of course, that transition will take eight or perhaps 10 years.

In any event, today we must save wherever possible. There are certainly opportunities to save even within a hospital. But, for now, virtually no mechanism is in place that would motivate the personnel to save. For instance, fines are out of the question in a situation where the majority of medical personnel are paid the minimum wage, and even my three surgeons are paid so poorly that they are asking for a government equalization supplement.

It is also clear that not all hospitals can afford to buy expensive equipment. On the other hand, as long as our hospital remains unable to introduce, for instance, the modern laparoscopy method of gall bladder surgery, we cannot very well compete with other hospitals and attract new clients.

But all purchases of the more expensive equipment must be carefully weighed. If I look at our situation, I am very glad that our facility is being privatized because that is the way that will enable us, the 10 members of a limited-liability company that has submitted the privatization project, to judge where it is best to invest. Because we must know that our patients will pay for our equipment purchases. It is certain that initially we will have to take on considerable debt, seek sponsors and the like. But, speaking specifically of our facility, I am convinced that it has all of the prerequisites to be viable.

I believe that doctors and health-care personnel, in general, are at present conducting themselves very reasonably and trying to understand the situation in health care. Unlike other professional groups, they, for instance, do not strike for higher salaries even though they would have real justification for doing so. Within the limits of the possible, they are endeavoring to do a good job. On the other hand, I really do not know why it is exactly we who are made responsible for social peace, who will always remain silent so that others will have it better.

[Box, p 39]

It was shortly after midday. The review doctor (85) looked at the prescription put before him. "This I no longer have to verify. A lot has changed since Monday, you know?! Or wait, perhaps it concerns something else. You are right; I have to verify it. But you have the wrong number here. Who gave you this code? You see, this book says something different. But let's wait. Maybe I have something even more recent. According to this listing, it would be about right, but yesterday the code numbers were changed again. Ah, now I see it, so it is correct. You know, the general takes very good care of us, forever sending us some new regulations and numbers and codes and circulars and notices.... But the problem is that no one cancels the old ones, and no one knows what actually is good today. So it can easily happen that, even if I verify this prescription, you will get nothing.

"Now I have to put a stamp on it, but that will be difficult because, as you see, someone has locked my desk. I will look for the key.

"You see, I put a pretty, nice stamp on it for you. Now it needs to be copied so that I can keep a copy here. Only it will be a bit of a problem to find a working copy machine in this building. Wait in the hall.

"See, we have now managed everything all right."

Meanwhile, night began to descend on Prague. I repeat to myself the well-known saying: A healthy man has many wishes, a sick man only one. For a long time, I did not know what that one wish was. Now I am beginning to figure it out. Surely it is somehow connected with the insurance company....

*** Free Democrat's Peto, Kuncze on Political Situation**

93CH0703A Budapest TALLOZO in Hungarian
3 Jun 93 pp 1026-1028

[Interview with Alliance of Free Democrats (SZDSZ) Chairman Ivan Peto and Parliamentary Faction Leader Representative Gabor Kuncze, by Henrik Havas and Laszlo Juszti; in NAP TV public affairs presentation OSSZTUZ, on 27 May 1993: "We Will Not Rescue the Government"—transcript of television broadcast]

[Text] [Juszt] A certain poster could be seen everywhere in the days of the 1990 elections. Three people were shown on that poster along with a three-word slogan: "We know, we dare, we act." There are only two of you at this point. Which two words of the slogan apply tonight?

[Peto] We continue with the same trio.

[Juszt] Who would be the third person on that poster, if you had to print a poster similar to the one you had in 1990?

[Peto] The other two with me on that poster could still be there. There could be others, some new people. I could even name some: Mr. Wekler.

[Havas] Is Mr. Wekler still current? It seems that you tested him, and then you preferred Mr. Kuncze....

[Peto] It worked. (...)

[Kuncze] I think so, too.

[Juszt] As long as we are discussing personnel affairs, has a choice been made as to who is going to head the slate and also become the candidate for prime minister? Or, are these two functions going to be separate?

[Kuncze] So far as I know, only one party has designated its prime minister thus far, the Smallholders Party. Jozsef Torgyan is their nominee for prime minister, and he, himself, confirms this fact. Other parties have not yet designated nominees for prime minister. No one at the SZDSZ questions that Ivan Peto is the first man of the party, he is the chairman of the party.

[Juszt] In other words, is he your nominee for prime minister?

[Kuncze] The first man of the party is the chairman of the party: Ivan Peto.

[Juszt] And who is the nominee for prime minister?

[Kuncze] This issue has not yet appeared on the SZDSZ agenda.

[Juszt] It is my understanding that FIDESZ [Federation of Young Democrats], too, has designated a nominee for prime minister. FIDESZ, your brother in the pact. (...)

[Peto] Not even in the newspapers have I read about Viktor Orban being the nominee for prime minister.

[Havas] They have not made a declaration to this effect, but still...

[Peto] Well, we did not make a declaration either, but still...

[Havas] That certain triple poster turned out to be a terribly unfortunate idea. Very many people attributed your failure to your inability to present a real candidate for prime minister, the way the Hungarian Democratic Forum [MDF] found its own candidate in the person of Jozsef Antall. You had three chairmen and three faction leaders since the elections. The rotation is rather heavy.

[Peto] That poster with the three people was not that bad. People liked it. It was not suited to designate a prime minister. I would add to your critique that Peter Tolgyessy was on the top of the slate at the time, and Janos Kis was the party chairman. It was indeed difficult to figure out these things. Things will be different this time around. But I do not believe that the SZDSZ has problems in this regard. Being in the opposition for a certain period serves the purpose of testing each other. We must see how various individuals conduct themselves in various positions. The people who had served as faction leaders thus far, or, not counting Janos Kis, who had served as party chairman thus far, have not been eliminated.

[Havas] The SZDSZ lost much blood as a result of frequent personnel changes, and due to conflicts evolving as a result of these changes. Many feel that FIDESZ is capable of manifesting a certain unity within its ranks, and so does the MSZP [Hungarian Socialist Party], while the SZDSZ appears to suffer the fate of the Smallholders in terms of divisiveness, because the laxity of platforms could lead to near anarchy.

[Peto] You and I may be talking about two different parties.

[Havas] I am talking about the party that had three chairmen and three faction leaders thus far.

[Peto] We did not have three chairmen and three faction leaders at the same time, they came in succession.

[Juszt] In relatively quick succession.

[Peto] Elections were held once a year. We are going to change this. Last November's SZDSZ meeting of delegates decided to elect officers for two year terms. This was a good decision, in my view.

[Juszt] As long as you mentioned elections, let us take a look at the recent social security elections. What message did those elections convey to you?

[Peto] In discussions among ourselves we said that MSZOSZ [National Federation of Hungarian Trade Unions] would provide more or less what it had been

calibrated for, if it received about 50 percent of the vote. Its nationwide presence, the organization of MSZOSZ qualified it to receive that many votes. More votes than that would have meant a good performance, a spectacular performance by MSZOSZ. We regard the extent of voter participation in these elections as most important. The result was more or less the same as one could surmise it would be.

[Havas] You held a press conference after the elections to declare what you just said, i.e., that the MSZOSZ victory did not translate into left-wing gains. At the same time, however, the link between MSZOSZ and the socialists is entirely obvious. MSZOSZ obtained the same number of votes, or more votes on its own than the victorious MDF did in the 1990 elections. Why isn't the MSZOSZ's success the success of the left, as long as this organization, with an expressly left-wing outlook, closely linked to one of the left-wing parties, won such great victory?

[Peto] This was not the only subject we addressed in our statement, we also said that we welcomed, and were pleased with the fact that the social security elections had been successful. In this instance, however, the subject of the elections was not a choice between parties. I wonder whether anyone is able to define the differences between the programs advanced by the various trade unions, as shown on their slates. In other words, people did not choose between programs, but between trade unions. The fact that MSZOSZ is more widespread and that it has a broader network is entirely....

[Juszt] You are absolutely correct in saying that people chose between trade unions, and not between programs. We were able to hear from the various trade unions. The Christian trade unions spoke out.... I do not even know their names.... On the other hand, everyone was aware of where MSZOSZ belonged.

[Peto] I do not believe that people voted for MSZOSZ for this reason, because...

[Juszt] Not only because of sour grapes?

[Kuncze] They were sour. But as long as we are discussing grapes, the League performed much better in places where it was well organized, than in the national average. This, on the other hand, suggests that MSZOSZ performed well on a nationwide scale, because it was well organized throughout the country. This is where you find the answer to MSZOSZ's good performance. This has no effect on the political situation in my view, it is not an indication of how voters are going to conduct themselves in 1994. (...)

[Havas] Trade unions are concerned about a joint proposal advanced by FIDESZ and the MDF, which can easily bring to a halt the establishment of autonomous social security boards. Some huge problems may arise if that proposal is implemented. Trade unions are not going to participate in the meeting of the interest mediation council, and that would raise questions throughout

the world about having confidence in Hungary in the near future. In SZDSZ's view, could a situation evolve in which the new autonomous boards confront the National Assembly? At this point, autonomous governing bodies are going to dispose of more than half the amount of the budget.

[Peto] Such confrontations could occur, of course. The establishment of the autonomous governing boards means the removal of control over assets managed by autonomous social security governing boards, assets which have thus far been overseen by the government and the National Assembly, or the majority in the National Assembly. In other words, this package includes the future possibility of confrontation. At the same time the autonomous governing boards find themselves in a rather difficult situation, because the value of available assets that can be used is rather small compared to amount needed to perform the task. On top of all this, the autonomous governing board is based on a rather complex formula, because trade unions provide only half the number of board members. Employers and pensioners are also included when it comes to pension insurance. In other words, there are many clashing viewpoints.

[Havas] Don't you regard as odd that the MDF and FIDESZ are once again in agreement in this regard?

[Peto] I do.

[Juszt] And have you brought this issue up to your natural ally?

[Peto] Well, we usually mention our points of disagreement to our natural ally. Regarding the social security autonomous governing boards our differences were fully obvious already in parliament. FIDESZ did not, and still does not approve of the idea of having autonomous social security boards. We told them that although we did not regard this as a good solution, and that a better solution could be found, we nevertheless accepted and took note.

[Havas] This involved the social security issue, of course. Your views were far apart. But cooperation between the MDF and FIDESZ seems to be taking shape. There is that certain real estate issue. The story is well known: FIDESZ and the MDF acted jointly in selling a valuable building given to them. Billions of forints flowed into the party coffers. What did you agree to at the time? Did you agree to provide 2,500 square meters, say, to FIDESZ, and was there an agreement to this effect between the two of you, or did you agree to provide money? Giving FIDESZ those 2,500 square meters in outer-Ferencvaros would be something entirely different than giving them the former Officer's Casino at the Elizabeth Bridge. I believe that people dislike the fact that this transaction involves granting assets for free, that a huge sum of money is involved.

[Kuncze] A comparison was made after the 1990 elections between the proportionate number of seats in

parliament held by the various parties and the size of headquarters office space available to the various parties. As it turned out, FIDESZ and the MDF had fewer square meters of headquarters office space than what they should have had, based on their election results. Since their headquarters building proved to be small, an agreement had to be reached in terms of square meters, because everyone was thinking in terms of receiving and making use of headquarters buildings. No one at that time thought of selling the headquarters buildings.

[Havas] Let me say this on behalf of the citizenry: This is a joint affair of the six parties, isn't it?

[Peto] The six parties agreed that each party would receive headquarters office space needed for operations, in proportion to the actual election results.

[Juszt] We cannot be sure that the next elections are going to produce the same ratios. In other words, the differences in office space corresponding to the new election results should be returned to the state. To argue this point in terms of the absurd: Should a party retain its headquarters building if it fails in the next elections, if it ceases to exist, or if it continues functioning with 100 members?

[Peto] In that case a party might retain its headquarters building. But I do not believe that this presents a problem today, the problem involves parties which still exist, but which have already sold their headquarters.

[Havas] Are you suggesting that FIDESZ has seen the results of a public opinion poll and has recognized that it had no future? That not even two headquarters buildings would be needed?

[Peto] I did not suggest anything, all I did was to recite reports I read in the newspapers. We asked FIDESZ to provide an explanation of the events that transpired. We do not approve of FIDESZ selling its headquarters building. It could be that they made no use of that building, but in that case they should not have made this deal. But surely, we are going to receive some kind of explanation. I have written to Viktor Orban and he responded in writing. We have agreed to meet. I am curiously waiting to hear what he has to say.

[Juszt] How far does party loyalty extend, I mean SZDSZ-FIDESZ loyalty? At what point would one or the other party cancel the agreement reached?

[Peto] We have not reached an agreement in this regard. Our agreement states that we would not enter into agreements relative to the elections without mutually notifying each other and that we intended to closely cooperate until the election. But the agreement did not extend to having joint positions regarding the social security issue, nor did it extend to our support of a joint deal between FIDESZ and the MDF regarding headquarters buildings.

[Havas] An interesting situation may evolve at this time. A national policy group called Hungarian Truth was

formed with 28 members, and Istvan Csurka is one of them. Many believe that this represents the establishment of a new parliamentary faction. If we add to this Torgyan's group—which is obviously going to vote with the new group—and a few Christian Democrats, this government may be voted out if you act differently than in the case of the Hungarian-Ukrainian basic agreement. At that time your votes saved Jozsef Antall and Geza Jeszenszky from some great trouble.

[Peto] Do we support legislative proposals advanced by the administration, if those are acceptable? Yes, we do. The Ukrainian-Hungarian basic agreement is not the sole precedent for such support, I could mention countless other examples in the recent past. Also, when the government attempted to reach an agreement, an agreement became possible also in regard to the two-thirds laws. We will soon be casting votes for the National Assembly commissioner on citizen rights; in this regard the various viewpoints have come rather close in the course of negotiations, and it appears that the opposition is going to vote to approve this two-thirds law. The supplemental budget, and the budget in general present tougher issues, because in dealing with the budget parliament is debating the economic policy of the government as a whole. And in this regard the government must demonstrate that it enjoys the support of a majority in parliament.

[Kuncze] And this support must be demonstrated not by opposition votes cast.

[Havas] But the Csurka group has already declared that it would not vote to approve the supplemental budget.

[Peto] The government cannot govern if it is unable to muster a majority.

[Havas] What would this interesting situation mean to you?

[Peto] It would mean that we would face the situation, of course. We are not going to come to the rescue of the government in this regard, because at that point the same ruling coalition that governed thus far no longer governs. At that point we would have an interesting governing coalition, and we would not join that.

[Havas] You just uttered a sentence: You would not stand on the government's side. By saying this you actually conjured up the nightmare of a government crisis.

[Peto] Whether this represents a nightmare to the people is...

[Havas] One often hears about monthly government crises in Italy, nevertheless Fiat continues to function. In Hungary there is no Fiat, but we have an Ikarus.

[Peto] And it does not function, regardless.

[Havas] But the situation is more serious than that.

[Peto] Of course. But the logic behind this is what Gabor just said: If a government coalition is formed after an election, and if that coalition says that I want to do this or that, and if, as a result of saying so the coalition loses its support and the former supporters leave the coalition, then that ruling coalition ceases to exist. At that point it must be made clear that a new situation exists. Several solutions exist in the world to remedy this situation. A solution could also be found in Hungary. The government could either declare that henceforth it governs in the minority, or, it could request temporary opposition support regarding certain issues under such and such conditions. At that point the issues in which we would support the government until the elections become the subject of bargaining. This is the unlikely situation, because it makes no sense. If the government loses its parliamentary majority and is unable to represent its own policies, i.e., if it is unable to have its supplemental budget and the increased value-added sales tax [VAT] adopted...

[Havas] It seems that it is not going to be able to have parliament adopt these, unless your party votes to approve it.

[Peto] We are not going to vote for it. If we voted to approve this measure we would indicate that today's government coalition was capable of implementing something. In contrast, we claim what Gabor stated in parliament after Ivan Szabo's speech, that we believe that this government is incapable of performing on its new promises, because it was also unable to perform on its previous promises. We do not pin our hopes...

[Havas] That let's say, FIDESZ would vote for it.

[Peto] I do not believe that they are going to vote for it.

[Juszt] One could hear such criticism in those days, and I quote: "Last March Jozsef Debreczeni predicted in an article entitled 'The Rise and Fall of the SZDSZ' that the SZDSZ is going to struggle to achieve the 4-percent margin that enables it to be seated [in parliament]." A year later the SZDSZ reached the five percent margin. I do not know where you stand today.

[Kuncze] Based on April surveys, the SZDSZ has 11 percent of the votes of likely voters according to Median, and 10 percent according to Szonda Ipsos. Jozsef Debreczeni's prediction does not appear to come true, unless he referred to himself when he mentioned the four percentage points.

[Juszt] Accordingly, is the SZDSZ maintaining itself at the 10-11 percent level?

[Peto] This applies to slate voting. In addition, we also have representatives running in individual districts. This result would not be not too bad, but we are not satisfied with 11 percent. I do not want to overestimate our anticipated performance, but the percentage of votes acquired by a party does not determine participation in a government, or membership in a coalition. If I recall

correctly, the Christian Democrats did not burst the seams either, and yet they became part of the ruling coalition.

[Juszt] They would also like to run away from it.

[Peto] That is another matter. I do not believe that we are going to score bad results. It is yet another question whether our results are going to be big enough to join a ruling coalition. That depends on results achieved by others, and on others with whom we could enter into a coalition.

[Havas] A moment ago we said that the government might fail unless the Csurka group votes to approve the supplemental budget. I then ask: Could there be any truth to the gossip that has been growing for weeks and months, according to which the MDF and FIDESZ had obviously anticipated the evolution of a situation like this? And in that case we are, indeed, going to have elections in September or October, because a very drastic budget—and it seems this is what we are going to have—would have to be approved by a new parliament.

[Peto] I am not aware of any negotiation of this sort between FIDESZ and the MDF. Their interests are very different. Accordingly, I do not even assume that negotiations in this matter are underway.

[Havas] Don't you hear about things like this?

[Peto] I hear of so many things. I would live in fear if I took all this seriously. In other words, I do not take this seriously. It is yet another matter whether the MDF wants to advance the elections, and whether this is going to occur. In my view, the MDF is in no condition to want to bring the elections forward, to call for elections at this time or in September. But it could happen, irrespective of what I think. I believe that the MDF does not want to bring the elections forward, but it may be forced to do so. It is worth considering that the budget debate is scheduled for December. Prior to December, parliament would be called upon to approve certain constraints, at most. Parliament would have to vote on the proposed VAT increases, and on authorizing a larger than planned budget deficit for this year. Actually, the present ruling coalition could vote to approve this. This is true provided that they are consistent; they voted for the budget last December, and so they could also vote to approve this.

[Havas] I am pondering your previous statement, according to which you would not side with the government. It is your right to do so, of course. But if one thinks through the consequences... A possible rift in the MDF could produce a right-wing bloc of a kind everyone talks about, and experts believe that such a bloc could obtain 8-12 percent of the votes in an election. And MDF without Csurka is no longer an MDF, according to Lezsak. They could become extremely weak. Would this be in anyone's interest? Things could be delayed until spring with your help.

[Peto] This is a bad coalition, and we have been saying this for three years. The MDF, as a party, is a bad coalition, because it, too is a coalition, a coalition of opposite views. Now that our statements are finally being proven to be true, should we help them out now, in the last moment before the elections, and say that it makes no difference how bad they have been, and then take the consequences jointly. This makes no sense in my view, and I do not believe that any opposition party is going to take this up. In cases like this one calls for new elections, because it is entirely obvious that the country cannot be governed the way the government is set up. I am not saying that this is going to occur by all means, other possibilities also exist. In other words, I do not regard this as something that has already been decided with finality, all I say is that the logic behind parliamentary systems is that elections must be called if the ruling majority ceases to exist. (...)

[Juszt] It is very difficult to do anything. Anyone who follows the current government is not going to have a victory march.

[Kuncze] First of all, it is not true that nothing can be done. Indeed, things can be done in this country. Second, no political party can stipulate losing the elections. If a party believes that it knows what to do, and this is how the SZDSZ perceives itself, it endeavors to realize its ideas. To do so, one has to score well at the elections. Accordingly, in our view, the reverse situation exists; everyone who believes that he is able to act for the benefit of the country must strive to win.

[Juszt] Yes, but it is difficult to imagine what step one could take in this rather tense economic situation.

[Kuncze] It is not so difficult to imagine this.

[Juszt] Do you think that those in position to act today intentionally do not want to take that step?

[Kuncze] A flawed coalition has made various detours based on an irreconcilable program, thanks to those who do not want to take this step today. In doing so the main consideration has always been the retention of power, and never the goal of setting the economy straight. Therefore, they have taken countless steps that were expressly damaging to the country. Just think of the destruction of agriculture, for instance.

[Juszt] Yes. You stated this in parliament, too. But now, when the governing force is unable to be certain of its position, would it not be logical from their standpoint to take all necessary actions?

[Kuncze] But it is incapable of doing so. That is precisely the problem.

[Juszt] The ones in key positions presumably are professionals.

[Kuncze] This is not of the essence. The essential thing is that the country has gotten into a certain economic situation in the course of three years. Only a different

kind of economic policy is capable of transcending that situation. Is this government capable of pursuing such an economic policy? Does it have the support of a majority in parliament to do so? If not, well, then some other people must come forward, people capable of performing this task.

[Juszt] And what reason do we have to believe that the next team could do so?

[Kuncze] Well, one has to be certain about that. (...)

[Havas] Let's discuss the chances the socialists have; everyone believes that they have a serious chance. It seems that Antall is going to be proven correct; he said that he was most concerned about the socialists.

[Peto] He is not really going to be correct in this regard either, just as in regard to other issues. In my view, the Socialist Party is going to perform better in the 1994 elections than in 1990. But I do not believe—and public opinion research confirms this—that they are going to accomplish a breakthrough. In addition, there is a problem we have mentioned many times before: The Socialist Party finds itself in a difficult situation, because every party has at least a casual relationship with other parties, and one can guess with whom these parties maintain close relationships. The Socialist Party is all by itself at the moment. Moreover, within the MSZP, some rather significant, and from my standpoint, more likable forces state that the MSZP should not become the governing power after the next elections.

[Havas] One indeed hears a few young socialist leaders saying that they do not want to acquire governing positions. They feel that it is too early for that. The interesting thing is that voters, too, should be notified that it is not worth voting for them.

[Peto] Well, then, I am taking this opportunity to give notice.

[Juszt] Based on your calculations, how much are the next elections going to cost the SZDSZ?

[Peto] A great deal. It will cost more than what elections should cost. The MDF has made a statement in this regard: half a billion forints, or more. We are unable to make a down payment of this magnitude. We have stated earlier that we would like to see elections costing less than the amount one is able to estimate, because spending too much on the elections is irritating. (...)

[Juszt] Forgive me if I say that I have difficulty imagining that you are going to finance your election campaign out of a mere 600 million forints. I would not regard this as wise, because every party is setting aside and hiding money, and receiving funds from here and there. We will never be able to trace these funds, nevertheless they will be expended in the course of the elections. Compared to that, 600 million forints appears as too little. Do you have money stashed away somewhere?

[Peto] We did not mention the 600 million figure. We quoted. We said that someone from the MDF appeared to have said that.

[Havas] The SZDSZ is also pressing hard in financial matters. Gabor Demszky is working on the Budapest radio and television; god and the frequency distribution agency willing, the SZDSZ is going to be able to operate as a radio and television beginning in the fall. Many believe this to be true, such as Mr. Demeter, the MDF's faction leader at the general meeting. And then Demszky and the deputy mayors would receive 4.5 million forints as a reward.

[Peto] No. Gabor Demszky and the deputy mayors offered these funds for public purposes.

[Havas] After the award was made...

[Peto] Not after, but before. They did not take it. The SZDSZ would not accept a television under any circumstance, i.e., neither in a governing position nor in the form of the Budapest local government, one that would serve partisan purposes, because such a television would not be fit for viewing. It is another matter that someone in a monopolistic position, such as the television in the hands of today's government, is, unfortunately, in a position to manufacture programs not fit for viewing.

[Juszt] This program is also being broadcast live by that monopolistic television.

[Kuncze] Allegedly it is going to be discontinued.

[Peto] There will be a summer vacation, and it will be continued beginning in September.

[Juszt] Let's make sure that this is understood. There will be a summer vacation, but we will continue beginning in September.

[Kuncze] Well then, let's return to this issue in September.

[Havas] What could prevent your supporters from establishing a radio or television station that supports the SZDSZ? Beyond your claim that this is not fit for viewing.

[Peto] In part, because this structure is not in the hands of any party. In addition, it is not in the hands of one party. A majority of the Budapest local government determined what kind of structure this should be. The SZDSZ and FIDESZ jointly represent a large majority in Budapest, but taken separately, neither of these parties carry a decisive weight.

[Havas] Presumably, Mr. Soros is willing to add a few hundred million forints to this 100-million amount, hoping that Budapest television is going to receive a permit to broadcast nationwide. And this suggests from the outset—and not only according to the leaders of the coalition parties—that the SZDSZ is going to have a

party television. Even though the chairman does not want to have a television like that. It will be forced upon you.

[Peto] I wish I could see this coming. And at that point I will see to it that this television becomes a nonpartisan television. I am not concerned about a television coming about this way. They are talking about all kinds of things. But Budapest wants to create a Budapest television, and not out of cash, but from assets contributed, and this makes a big difference. This is different from providing state budget support for institutions pursuing political purposes. (...)

[Havas] What concrete opinions exist within the SZDSZ about the upcoming period? Do you have to coexist with the idea that a cabinet crisis might evolve, and that the government might fail?

[Peto] We have considered the possibilities, of course, and we are trying to analyze the anticipated developments.

[Havas] Don't you want to visit with the prime minister?

[Peto] One goes to the prime minister if there is some business to be transacted. I know of no issue that would prompt me to see the prime minister.

[Juszt] Is spite part of all this?

[Peto] On the part of the prime minister?

[Juszt] No, on your part. I asked this question only because I could mention a case....

[Peto] There are very many cases. I know of no case at this moment which would demand a meeting in person. To the extent that the prime minister is familiar with the SZDSZ's position.

[Havas] Is the failure or survival of the government a petty issue at this time? Does this issue not reach high enough to warrant a discussion?

[Peto] Any prime minister who wishes to discuss these matters with the leaders of an opposition party, will find himself in an uncomfortable situation. In other words, this issue is not something to be discussed in a personal meeting. Conceivably, if the prime minister realizes the existence of this threat, he would convene the leaders of parties seated in parliament and conduct negotiations to reconcile things. But he would not do so with leaders of individual parties separately. The leaders of each party could, conceivably, see him separately. But the SZDSZ is certainly not going to tread a separate path for itself in this regard.

[Havas] We must return to the beginning of our talk to conclude this conversation. The thing my colleague mentioned about the three good-looking young men: Peto, Rajk, and Balint Magyar were beaming on that poster, and as we agreed, this was not overly fortunate.

[Peto] We did not agree upon that.

[Havas] It would be good to be able to identify an SZDSZ man capable of assuming the responsibility to govern, in a given situation. I do not want to hurt Mr. Kuncze's feelings, but Mr. Wekler was there before him, and at that time you were not sitting here, but applauded instead. And you always watched the faces the way they reacted to the new nominee. Couldn't we settle this matter?

[Peto] We have already settled this matter. But it seems that those asking the questions do not follow this logic. A moment ago Gabor said that at present I am the chairman. This sounds funny, because I am talking about myself. In other words, I am the chairman of the SZDSZ, and I am the SZDSZ's nominee to head the slate. Until a different decision is made. And I know of no pending decision in this regard.

*** IMF, '93 Supplementary, '94 Budget Discussed**

*** Controversy Over Minister's Statement**

93CH0673A Budapest HETI VILAGGAZDASAG in Hungarian 15 May 93 p 18

[Unattributed article: "Budget '94"]

[Text] The government would not have been able to approve this year's 2-billion-forint subsidy for the Hungary Television Foundation, at least according to Finance Minister Ivan Szabo's statement at his press conference on Monday. Namely, the source from which this subsidy would have been provided was the budget's general reserve. But the minister claims that his predecessor, Mihaly Kupa, had agreed orally last year with Michel Camdessus, the managing director of the IMF, that, as a condition for the continuation of IMF talks, the general reserve could not be touched if this year's budget deficit was likely to exceed the 185-billion-forint limit approved last year. But not even the prime minister knew of this agreement, Ivan Szabo added.

Incidentally, Mihaly Kupa denies having concluded any separate agreement. In any event, also the government knew that the IMF had stipulated, as a condition for the continuation of the talks, the adoption of a supplementary budget to whittle the budget deficit down to its planned level, if that level was in danger of being exceeded this year (HETI VILAGGAZDASAG, 24 Apr 93). But that [cutting the deficit] has not been accomplished to date. Indeed, as a result of shortfalls in revenues from privatization and bank profits respectively, the state secretaries at the Ministry of Finance, namely Pal Becker and Zoltan Nagy, announced just last week that, according to the supplementary budget bill the government was planning to introduce in the near future, this year's budget deficit could exceed by between 45 and 50 billion forints the amount approved last December. Although that would bring this year's budget deficit close to 8 percent of GDP, the IMF seems unlikely to leave Hungary without a loan, after granting Russia a standby credit of 4.1 billion dollars until

October at the latest (as a part of the \$43-billion aid package the seven developed industrial countries pledged Russia in April). This assumption seems to be confirmed also by Finance Minister Ivan Szabo's statement that he has agreed orally with Massimo Russo, the head of the IMF's European department, on an arrangement for 18-month standby credit totaling nearly 600 million dollars. This agreement has also the blessings of Richard Erb, the IMF's deputy executive director, despite the fact that the staff, led by Gerard Belanguer, the rapporteur for Hungary, was opposed to providing the standby credit.

Anyhow, the conditions for 1994 seem rigorous, although all we know of those conditions at present is that a growth rate of 3 percent is expected, and the budget deficit may not exceed 5.6 percent of GDP. Ivan Szabo intends to brief Parliament only on Monday about the details of the measures proposed for 1994, after the measures have been discussed in cabinet and in the Council for the Reconciliation of Interests as well. At his press conference the minister emphasized that, in the budget's structure, also the IMF attributes primary importance to changes that promote economic growth: lower expenditures for social welfare and for grants to local governments will suffice; and it will be expedient to use the savings from these cuts to increase investment in the infrastructure. The proposals allegedly include the abolition of various tax breaks—for instance, of the zero rates. In the case of VAT, moreover, the 6-percent rate would be increased to 10 percent. And, according to some suggestions, the zero bracket amount of individual income tax would be 108,000 forints next year. Just as this year, however, once again there are no plans to adjust the tax tables for inflation, while the imputed value of incomes received in kind would also be taxed. Work is in progress on a minimum tax that every entrepreneur would pay (it is still undecided whether this tax will be a lump sum or a percentage of the proceeds from sales), and also on a twofold to threefold increase in the rates of property-acquisition [gift, inheritance, and transfer] taxes.

According to monetary experts in Washington, the finance minister was in error when he said that the managing director of the IMF has authority to approve the standby credit. The general opinion is that, even with the approval of also the IMF's board of governors, the first tranche of the standby credit could be available by September. Provided the ruling parties, imbued with the most diverse difference, will be able to reach agreement in the debate on the principles of the 1994 budget.

Otherwise Gyorgy Szapary, the Budapest representative of the IMF, will be replaced as of August by Gyorgy Kopits, a tax and budget expert who has already participated as a consultant in the work on fiscal reform when Laszlo Bekesi was minister of finance. Another change is that Akos Cseres, the deputy chief of the Monetary Policy Main Department at the Hungarian National Bank, will be replacing his former colleague, Bea Szombati, at the IMF. And at the World Bank, Katalin

Demeter will be replacing Mihaly Patay, a one-time Ministry of Finance official, as Hungary's representative. As a Hungarian economist, Katalin Demeter recently acquired a degree in economics in the United States.

*** Opposition Leaders, KDNP Comment**

93CH0673B Budapest *BESZELO* in Hungarian 22 May 93 pp 8-9

[Interviews with Alliance of Free Democrats MP Marton Tardos, Federation of Young Democrats MP Mihaly Varga, Hungarian Socialist Party MP and former Finance Minister Laszlo Bekesi, and Christian Democratic People's Party MP Bela Csepe, by J.E.; place and date not given: "Survey Interviews on the Finance Minister's Report"]

[Text]

Marton Tardos (SZDSZ [Alliance of Free Democrats])

[Tardos] Ivan Szabo has not reassured his audience. At last report, the standpoint of the MDF [Hungarian Democratic Forum] on economic issues had been that the country was doing well; economic recovery would begin in 1993; and the opposition's criticism was merely obstructionism or senseless troublemaking, because everything was in order. Now, without once mentioning that the MDF and the government had been mistaken, [Szabo] suddenly begins to talk though, about what austerity measures society would have to accept. His audience was unprepared for this, and he failed to say what he could offer them in return for accepting the harsh measures. Our opinion had been that cuts in budgetary expenditure were necessary as the only way leading to the economy's stabilization and subsequent growth. In that respect, then, we are able to say that the government has accepted only now what we had been proposing six months ago. But this situation is not unprecedented. Both Mr. Rabar and Mr. Kupa had made statements similar to the one Ivan Szabo is now making, but their aspirations had been frustrated by the ruling parties. Just as those parties had been unable to organize political support for Messrs. Rabar and Kupa then, they will not be able to organize such support now either.

[J.E.] In your opinion, how was it possible to get the IMF to agree to a larger budget deficit this year than what the Hungarian government had promised?

[Tardos] The IMF assesses the Hungarian government's economic policies reasonably and in accordance with the interests of the Hungarian people. But Ivan Szabo is right in saying that, within the demoralized group of former communist countries, our rating is still relatively good. This region is undergoing a spectacular crisis, and it would be embarrassing for the IMF to have to admit that even in Hungary it is incapable of producing anything more than a rude conflict.

[J.E.] What is your opinion of the reordering of priorities? Ivan Szabo has announced that economic growth, rather than reducing the budget deficit or curbing inflation, is the most important goal at present.

[Tardos] There were economic-policy experts who said inflation has to be brought down to the 5- or 6-percent rate that has evolved in the EC countries. Others felt that runaway inflation has to be prevented, the danger of triple-digit inflation averted. I hold with this latter view. In my opinion, the government has been successful in reducing the rate of inflation from 35 percent to 20 percent. A rise of 1 or 2 percentage points in the inflation rate is still tolerable, but I would oppose any attempt to accelerate inflation. The situation is the same with the budget deficit. I suspect that Ivan Szabo underestimated the deficit in percent of the GDP, or overestimated the value of GDP in order to obtain a lower relative measure of the deficit. In spite of this, the budget can still be maintained temporarily at the deficit level he gave. But this deficit can be brought in harmony with a successful economic policy only if more money can be allotted for stabilizing the economy, for infrastructure investment, and guaranty funds. But there would be trouble if no changes were made in the budget's structure, or if the deficit turned out to be substantially more than what Ivan Szabo indicated.

Mihaly Varga (FIDESZ [Federation of Young Democrats])

[Varga] We were pleased to see finally a minister who takes Parliament's oversight role seriously and really keeps the National Assembly informed. But we were less pleased to hear what Ivan Szabo had to say about the measures that can be expected in the near future. Those measures will meet with the opposition of a large part of our society. The situation is serious, and the opposition says so in the budget debate every year. The problem Ivan Szabo spoke about could have been avoided.

[J.E.] Has anything significant happened, besides the IMF's acceptance of a 30-billion-forint increase in this year's budget deficit?

[Varga] That is a good question, to which we have not received an answer so far. For the time being, however, there is still no specific, signed agreement with the IMF.

[J.E.] Do you regard as realistic the finance minister's goal of no increase in the budget deficit in comparison with this year, despite the fact that, for various reasons and from the very outset, there will be 82 billion forints of additional expenditure?

[Varga] That sounds rather illusory now, on first hearing. Let us hope that there will be specifics to support these plans.

Laszlo Bekesi (MSZP [Hungarian Socialist Part])

[Bekesi] Two things have come to light so far. First, that there is a shift in economic policy. The international

monetary organizations, Ivan Szabo said, are in agreement that economic growth should have absolute priority in Hungary's economic policy, over reducing the budget deficit and curbing inflation. That is a highly dangerous course for Hungary. It means that attempts will be made to generate economic growth artificially, even at the cost of a further rise in domestic and foreign debt, and of inflation's renewed acceleration. That cannot be allowed to happen. Hungarian economic policy must steer a course marked by five buoys: growth, balanced budget, curbing inflation, lower unemployment, and the relieving of social tensions. A finance minister cannot say that growth must be given priority over everything else. We know what the "growth policy" announced at the MSZMP [Hungarian Socialist Workers Party] in 1985 eventually led to.

The other important thing Ivan Szabo talked about was taxing higher incomes more heavily. Let us not consider on this occasion whether the effect of such a measure holds back performance (in my opinion, it will). But substantial revenue cannot be collected from persons with higher incomes. Therefore a sudden rise is to be feared in the burden of specifically those middle-class strata that ought to be protected from economic collapse.

[J.E.] Is not the granting of top priority to economic growth merely window dressing, in an attempt to persuade the coalition to accept the latest austerity measures? After all, we did hear that also next year the scope of budgetary policy will be very limited.

[Bekesi] That, I suspect, is what this announced priority really is all about. The budget will be growth-stimulating mostly in its lip service. Or if the deficit turns out to be much greater than the projected 215 billion forints, and substantial tax relief will have to be provided. The 2-percentage-point cut in the rate of corporate income tax, which the finance minister has promised, will have no economy-stimulating effect whatsoever.

[J.E.] In your opinion, will it be possible to remain within the 250-billion-forint budget deficit next year, which would be the same percentage of GDP as this year?

[Bekesi] I am convinced that it will not be possible to do so.

Bela Csepe (KDNP [Christian Democratic People's Party])

[Csepe] The economy's development has not followed the more optimistic forecasts. But the cut in the rate of corporate income tax, and in the case of individual income tax the higher zero bracket amount that will not apply to taxpayers with large incomes, will be favorable changes. If anyone, the persons with large incomes can be expected to make greater sacrifices. Although there will be austerity measures, they will be subordinated to the most important consideration, namely to restarting economic growth. The KDNP has been emphasizing for more than a year that this is necessary. My inference

from what Ivan Szabo said is that he, too, is placing the main emphasis on this. In the hope that my inference is correct, it is perceivable that also the opposition will be able to accept the changes. I think I have found signs of such willingness in Gabor Kuncze's speech [in the budget debate]. But there is one thing on which I still disagree with him: when he listed the government's mistakes, he included also the question of compensation among them. Yet compensation is a moral obligation, one that the coalition intends to honor even in this difficult economic situation.

*** Supplementary Budget Urged**

93CH0673C Budapest FIGYELO in Hungarian 20 May 93 p 10

[Interview with Gyorgy Naszvadi, deputy state secretary of the Ministry of Finance, by Eva Czelnai; place and date not given: "I Do Not See Any Real Chance of Spending Cuts"]

[Text] *According to Gyorgy Naszvadi, a deputy state secretary at the Ministry of Finance, the supplementary budget, like the one last year, will probably mean taking cognizance of a larger deficit stemming from revenue shortfalls.*

[Czelnai] In what respect will this year's supplementary budget differ from the one last year?

[Naszvadi] By now it is practically certain that the introduction of a supplementary budget for 1993 will be unavoidable. Structurally the supplementary budget this year will look like the 1992 supplementary budget, because once again the problem is on the revenue side of the budget. But whereas last year there were departures, of orders of magnitude, from the estimates in both the amounts of revenue and their structure, the deficit's increase, which now is expected to be between 30 and 40 billion forints, stems from shortfalls in privatization revenue and in payments by the banks.

Everyone now agrees that an estimate of between 70 and 80 billion forints of revenue from privatization was excessive. The facts also show that less revenue is flowing in from privatization than what was estimated, and that there is great pressure to spend the revenues for other purposes. In addition to the shortfalls of revenue, then, there is also a problem of reallocation. The version of the assets-policy directives now before the cabinet sets an order for the uses of the proceeds from privatization and distinguishes groups of uses. On that basis, the state budget ranks practically at the very end, because it has been included in the fourth group.

[Czelnai] On the basis of what considerations did the talks on the reconciliation of interests at the end of last year include among the budget's estimates 20 billion forints of additional revenue from privatization?

[Naszvadi] What other course of action was there left after an agreement had been reached on a 6-percent VAT

rate, and a 50-percent rate of individual income tax had been voted down? On the basis of the directives then in force regarding the allocation of proceeds from privatization, this estimate could still fit into the budget plan, and Parliament passed it. Even now the trouble is not just with the proceeds from privatization, but also with the low order assigned to the state budget in the allocation of the proceeds.

[Czelnai] Are there also other shortfalls of revenue?

[Naszvadi] In the revenue collected in April, there is a serious shortfall in taxes from the banks. Since the banks closed 1992 with substantial losses, hardly any tax revenue is being collected from them. Tax collection from the banks this year to date has been 2.7 billion forints. From which it is evident that the total tax collected from the banks this year will be merely 5.0 or 6.0 billion forints, instead of the estimated 25 billion forints. On the other hand, the revenue from VAT and individual income tax might exceed the original estimates for this year, while revenue from corporate income tax will probably fall short of the estimate. Momentarily, revenue from corporate income tax is higher this year than it was last year; revenue from customs duties is likewise doing well; excise-tax revenue is slightly below its estimate; VAT revenue is more or less on target; and the same can be said also of revenues from individual income tax and miscellaneous taxes. On the expenditure side, disbursements are in accord with the prorated estimates.

[Czelnai] Will there be an economization drive this year similar to the one last summer?

[Naszvadi] I don't think so. There is a qualitative difference between the situation last summer and the one this year. Now the revenue from privatization is the problem, whereas last year the entire revenue side was in trouble and also the shortfalls in relation to the estimates were greater.

What we would need at present, of course, is to have Parliament cut spending by between 30 and 40 billion forints, but I do not think there is any real chance of spending cuts. In other words, we are in a real predicament. If we are unable to cut spending, then a supplementary budget has to be adopted in which the deficit is between 210 and 220 billion forints, rather than 186 billion.

[Czelnai] Would it be conceivable to include additional items on the expenditure side?

[Naszvadi] It now appears that we will be able to remain within the estimated total expenditure, even though there are numerous new demands for spending. But these demands are directed mostly at using up the general reserve. Amending the expenditure side might be necessary only in the case of items for which Parliament reserves the right to change them.

For instance, if it should become necessary to change—i.e., either to reduce or increase—the grants to local governments, the subsidies to the churches or political parties, or in the case of the link between social insurance and the state budget.

[Czelnai] What rules apply to drawing on the general reserve?

[Naszvadi] The general reserve, which is 13.5 billion forints, may be used for two purposes, in accordance with the government's discretion: to cover unforeseen expenditures, and shortfalls in revenue respectively. But a part of the general reserve is necessarily earmarked for the expenditure side, because there are items of expenditure that must be met whether it rains or shines.

[Czelnai] What is your opinion of the contention that deficit financing will not raise interest rates?

[Naszvadi] Put that way, this contention is false. It is merely a theory that has not been confirmed in practice. If anything brought down interest rates in 1992, it was the appearance of government obligations whose interest level, incidentally, was very low. There is really no demand for investment financing, and the banks are reluctant to lend, especially when risk is involved.

[Czelnai] Specifically what do you expect of the Committee for Streamlining the State Budget's Planning and Execution, which has been set up recently?

[Naszvadi] In principle, this committee's potential offers a wide range of opportunities. First of all, to devise completely new systems in many areas—for instance, to review the structure of institutions also from the viewpoint of what the state is able to afford. The members of this committee will have helped enormously if they will oversee this work on the basis of objective criteria. But if the committee becomes merely a forum for internal clashes, then it will turn out to be "nothing new."

* EBRD Performance Assessed; Changes Suggested

93CH0674C Budapest FIGYELO in Hungarian 13 May 93 p 46

[Article by Gy.V.: "Attali Is No McNamara"]

[Text] "If somebody today were submitting the plan to establish the European Bank for Reconstruction and Development (EBRD), it probably would be rejected by the very founding countries that, two years ago, gave their blessings to the creation of this new international financial institution."

That was said by an official of the bank, quoting someone from the highest level of management. Basically this view does not stem from overspending by the bank and its lax control of costs, nor from the Marblegate scandal that erupted in the wake of articles appearing in the press.

The bank's founding two years ago was still accompanied by optimism that, in the countries of Central and East Europe as well as in the Soviet Union, it would be possible to build more quickly and less painfully a market economy based on private ownership. By now it has become clear that these optimistic expectations are not being realized in practice; that historically the transformation will take place over a longer period; and that in many countries it will be accompanied by intercommunal violence, opposition and a process of disintegration. Under these conditions, the potential founders would probably think twice about creating such a financial institution.

However, the bank does exist. And even in its existence it is the embodiment of a serious contradiction.

Namely, the EBRD combines "in one person" the functions of both a development bank and a commercial bank. The two banking functions require different banking policies, different criteria for risk assessment, and different financing mechanisms and techniques. The EBRD is indeed coping with the difficulties of coordinating these two banking functions that differ greatly in their financing philosophy, and in the nature and magnitude of the risks they take.

The fact is that the bank has respectively made and disbursed only an insignificant proportion of even the investments and loans it has already approved. Unlike in the case of the bank's own spending, this is due in part to very rigorous vetting of the investments and loans. Vetting ranges from environmental impact studies, to the point where the bank disburses the approved loan only if the borrower presents invoices to prove that the purpose of the loan—for instance, the purchase of machinery and equipment—is being realized. But in part the bank's management can be blamed for the slow pace of the transactions. "Attali is no McNamara," said one delegate, recalling the professional managerial and organizational abilities of the World Bank's one-time president.

At the EBRD's general meeting of shareholders, primarily the representatives of the industrialized countries urged the bank to attain in its lending and investing the private sector's 60-percent share, as specified in the bank's rules of organization and procedure. This aspiration is commendable, but not necessarily well thought out. For in the countries of Central and East Europe, and especially in the countries of the former Soviet Union, specifically the infrastructure's absence or underdevelopment is the main obstacle to the private sector's development. And the infrastructure in most of these countries is state-owned. Furthermore, the financing of each infrastructure project requires a substantial investment (or loan). This could be offset in the less capital-intensive private sector only by the financing of a very large number of projects, which would not be realistic for the time being. The bank's officials are conducting extensive market research to find suitable investment

opportunities in the private sector, or in the privatization market that serves to dismantle the state sector. The results are rather discouraging: the offer of projects in the region is fairly meager. The Russian governor, who otherwise criticized the bank's activity very harshly, spoke of this with a measure of self-criticism, pointing out that his country is not yet ready to receive transactions of this type. "We have to deal with countries whose economies range from the chaotic to the different types of market economy, and they themselves are at different levels of economic and political uncertainty," said one of the bank's economic analysts.

Partially under the influence of what transpired at its general meeting in London, the EBRD has shifted to higher gear. To finance small and medium-sized businesses in Russia, the \$300-million multilateral fund approved by the G7 foreign ministers in Tokyo will be set up soon. The bank will develop a decentralized model of financing small and medium-sized businesses (with the participation of local financial institutions in the financing); this will be a change from the bank's present, centralized, system of decisionmaking. The development of small and medium-sized businesses will be aided with capital investment, loans and loan guarantees. (Ron Freeman, the bank's first vice president, believes that the Hungarian-American Enterprise Fund's practice of financing small businesses is suitable for serving as a model.)

Noreen Doyle, who arranges the bank's syndicated investments and loans, said that already 20 banks have stated their willingness to participate in providing medium-term loans in the countries of the Central European region. In the first three months of 1993, the bank's board of governors approved 83 transactions worth a total of 2.0 billion ECUs; they include 21 capital investments and 62 loans. The EBRD estimates that with these transactions it is able to tap 8.0 billion ECUs of additional sources, in the form of joint financing. In the case of syndicated loans, the EBRD assumes most of the political risk, and the participating commercial banks assume most of the business risk. The EBRD is planning to issue bonds in national currencies, in part to simplify the technical transactions of financing, and in part to tap local sources of loanable funds and as a hedge against the risk of changes in exchange rates. Preparations for the first bond issue are taking place specifically in Hungary, Doyle said.

The EBRD is beefing up its services outside financing, primarily in the form of consulting. It appears that the bank is planning to commission exclusively Western European and U.S. experts, most of whom know very little about the economic and social conditions in the countries of Central and East Europe. Consulting could certainly be made more effective if the EBRD were to avail itself also of the assistance of Slovenian, Polish or Hungarian experts—for instance, when reorganizing Russian, Kazakh or Albanian enterprises, or when financing small businesses in those countries.

Aiding the transformation of the countries of Central and East Europe, and of the Soviet Union's successors states, through money-market and capital-market instruments, would presumably become more effective if the financial institutions of the United Nations—namely, the World Bank and the International Finance Corporation—as well as the European Development Bank and the EBRD would not act occasionally like competitors or rivals closely guarding their “business” secrets, and instead would undertake coordinated and reconciled actions in the region.

*** World Bank Official on Status of Loans**

93CH0674B Budapest FIGYELO in Hungarian 13 May 93 p 40

[Interview with Andrew Rogerson, representative of the World Bank, by Eva Czelnai; place and date not given: “The Last Structural Adjustment Loan”]

[Text] *While Hungary and the IMF come to terms on the medium-range budget figures, disbursement of three World Bank loans has to wait.*

Talks in Washington between the International Monetary Fund and the Hungarian government ended recently. Their outcome, it is hoped, could be a new, 18-month, standby credit agreement. But until the two sides agree on the medium-range budget deficit, the World Bank and several other international financial institutions are adopting a wait-and-see attitude. The disbursement of a structural adjustment loan (SAL) usually depends on the fulfillment of general goals or of precisely defined conditions. About these conditions we interviewed Andrew Rogerson, the head of the World Bank's office in Hungary. As we went to press, he still had no word of an agreement on the budget deficit.

[Czelnai] What is in the set of conditions for the three structural adjustment loans that are affected also by the pending agreement with the IMF?

[Rogerson] The last approved structural adjustment loan, SAL 2 of 1991 in support of the medium-range program of economic reform, was devised to strengthen Hungary's creditworthiness. Of the originally approved \$250-million loan, all but 75 million dollars has already been disbursed.

For the remainder to be disbursed, a number of conditions must be fulfilled regarding off-budget expenditures, electricity rates, the extent of privatization, and the tax system. For instance, the relationship has to be changed between the off-budget funds and the state budget, and the volume of transactions between them has to be reduced. The government has submitted a program on this to Parliament, and we are now examining whether this program is in accord with the intent of the loan agreement.

Structural changes are necessary also on the revenue side of the budget; in the VAT system, for instance. But

because what Parliament passed in December was not what the government had proposed in September, we have to consider how this solution meets the original intention.

But the most serious remaining obstacle is the regulation of electricity rates. Raising the level of the rates ought to be carried out parallel with changes in the rate structure, to ensure that the burden falling on residential customers is not the same as the burden on commercial customers. And the average rate ought to approximate the international level. Here, admittedly, it is necessary to consider also the inflationary consequences, in addition to the effects on living standards and real wages.

[Czelnai] On what issues do the experts of the World Bank start out from the opinions of their colleagues at the IMF?

[Rogerson] On whether the state of the economy is suitable for the commencement of economic growth. The question is whether the budget deficit forecast for the medium range can be financed without driving out the private sector or fueling inflation. Once there is agreement on this, then, from our point of view, this part of the obstacles will have disappeared.

[Czelnai] How much of a change will it mean if this happens within the framework of a new, 18-month, standby credit agreement, rather than a three-year one?

[Rogerson] An 18-month agreement could come into consideration only as a second-best solution. It would mean that this was the only way an agreement could have been concluded at all. But the only thing that counts from our point of view is that the IMF form a positive opinion of the facts and figures presented to it. Consequently, we must first examine on what points there are differences of opinion between the IMF and the Hungarian government. If there is agreement on the trends of the budget deficit over the medium range—that is to say, if the government is willing to undertake the measures that can optimally be expected, and if the prospects for the realization of those measures seem realistic—then we would examine only the fulfillment of the remaining conditions.

[Czelnai] How do the SAL-type loans still awaiting approval tie in with the agreement?

[Rogerson] The \$200-million “business reform loan” hinges on export financing, and therefore affects the budget and the balance of payments as well. Thus it is similar to a SAL, but its set of conditions is linked more to privatization and reorganization. And then work is in progress on a fourth loan, “for the financial restructuring of enterprises.” We hope it will be the last SAL. This would serve to capitalize the banks, and also to accelerate the financial restructuring of the enterprises whose loans are the problem loans in the banks' portfolios. That would free internal resources for the state budget. This is why we have to know what it will contain.

[Czelnai] In conjunction with the consolidation of loans, what proposals has the World Bank made regarding the regulatory supervision of banking?

[Rogerson] The purpose is to be able to use effectively the information that the banking sector provides. That is difficult to accomplish when one group of people—in the given case, at the central bank—is examining the liquidity situation, while another group is rating a bank from the viewpoint of solvency, risk and profitability. It would be advisable to better coordinate or perhaps to link these two aspects, to combine the human and the information resources.

[Czelnai] How would you people ensure better access to information?

[Rogerson] The Hungarian market is still too divided; its respective players do not know on what the other players base their decisions. The quantity of publicly available information ought to be increased to the maximum at the banking system's level. This "soft infrastructure" is even more important than the technological background. After all, a properly functioning market cannot exist without a dynamic flow of information. This may require statutory changes, but it is also conceivable that only the existing regulations may have to be interpreted differently.

[Czelnai] Also other loans—from the EBRD [European Bank of Reconstruction and Development], the European Community, and Japan's Eximbank—are linked to the loans in question. Does the World Bank strive to finance its projects in Hungary jointly with others?

[Rogerson] Joint financing slows down implementation in some cases, but is often warranted. After all, the World Bank's approval could free many other sources of loanable funds. Diversification of the sources is very important, because Hungary's total debt remains substantial. Even if the management of that debt has become easier lately, it is important to be able to finance debt servicing under conditions that are as favorable as possible.

* Self-Privatization Showing Positive Results

93CH0687B Budapest FIGYELO in Hungarian 27 May 93 p 25

[Article by Ervin Zsubori: "Self-Privatization: Is Less Going To Be More?"]

[Text] The first phase of decentralized privatization ended on 31 March by not coming to an end....

When first heard, the above statement may sound rather odd, and yet it accurately expresses the essence of the matter. Insofar as the first part of the sentence is concerned, the program has, indeed, come to an end in its present form, because the "Basic Agreement I" reached with 84 experts and providing rules for the program has, indeed, expired. On the other hand, literally in the last

minute the AVU [State Property Agency] Board of Directors regarded the program successful and decided to continue the program with changed conditions and with fewer experts.

This positive final outcome was in doubt for quite some time, because the results of Phase I began to materialize rather slowly, from a practical standpoint only a year and a half after the program started. Just two months before the scheduled March closing of the program, the number of sales amounted to less than 80, while by then the number of potentially saleable state enterprises exceeded 400.

As it turned out, however, those who estimated that at least a year and a half was needed for substantive preparations proved to be correct. In the final run the program picked up spectacularly: The number of sales contracts more than doubled and reached 167 during the last eight weeks before closing the program, and in 49 of these cases even the sales process came to completion. The value of AVU business shares involved in these transactions increased to about 10 billion forints, and the total amount reflected in the sales agreements was 6.1 billion forints. The experts managed to sell the total AVU business share in 130 enterprises. (Since then the number of agreements has increased further. The table shows the most recent data.)

Status of Self-Privatization*
(as of 18 May 1993)

	Phase I		Phase II	
	Contracted Sales Value	Of Which	Contracted Sales Value	Of Which
Number of contracts entered into	181	50	8	2
Basic capital of corporations (forints)	11,726,517	3,157,442	2,044,019	560,594
Amount of AVU-owned share of the above (forints)	10,390,257	2,697,836	1,990,719	560,594
Assets in excess of basic capital (forints)	2,782,690	575,848	301,941	167,217
Purchase price of AVU property sold (forints)	6,398,241	2,037,985	1,761,899	509,844

*Based on the sales agreements presented by the experts.

Source: PRI-MAN, Ltd.

It appears that the increase described above in the number of contracts and completed sales convinced those in charge that the program was viable, but not everyone can take part in the continued program. Experts, able to demonstrate that they fulfilled their obligation to obtain competitive bids but could not complete transactions because of "workers' counteroffers," could under certain circumstances receive permission to complete the transactions pursuant to rules contained in the original basic agreement. But the program is going to continue under more stringent rules contained in "Basic Agreement III," patterned after "Basic Agreement II." The AVU offered "Basic Agreement III" to only about half the number of experts participating in Phase I.

The AVU selected the new group of experts in the framework of a multistep evaluation process. A set of criteria established by the international public accounting firm Deloitte & Touche served as a decision-making tool to qualify or disqualify the experts. Based on these criteria, a separate point system was established to evaluate the experts, and another to assess the transactions completed by the experts.

In qualifying the various firms, the criteria included experience in privatization, expertise, connections with investors, as well as the number of contracts signed, completed transformations and successful sales.

With respect to specific self-privatization transactions the AVU assessed separately the strategy used by the experts to choose a state enterprise to be privatized; the expert's thoroughness in preparing the documentation for transformation and the time required to complete the sale; the expert's compliance with property management obligations up to the time of sale; the actual selling price and the percentage proportion of the corporation's assets sold.

In addition to the above, they tried to assign points to the expert's ability to represent AVU interests in the course of his activities, alternatively, the number of justifiable complaints filed relative to the functioning of the expert. (For example, points were deducted if AVU did not approve a transformation, if the sales process slowed down, or if complaints were filed with respect to the management of the property.)

In the end of the qualification process each consulting firm was given a number of points, enabling the AVU to rank the various consultants. All this was supplemented by the expressed views of professionals from PRI-MAN, Ltd.; these maintained direct contact with the consultants and were able to become personally acquainted with the consultants in the course of their joint efforts. The final decision however—the choice of experts to whom "Basic Agreement III" should be offered—was made by the AVU Board of Directors based on an individual evaluation of each expert. With the exception of one or two firms, every consultant asked accepted the new conditions, and thus 44 experts consulting firms received

authority to continue the changed first phase (see the boxed list of competing expert consultants).

[Box, p 25]

The 44 Chosen Expert Consultants

The AVU entered into a new basic agreement concerning the extended Phase I of self-privatization with the following expert firms:

Arbiter Corporation
AEB Corporation Venture Office
Banque Indosuez Hungary Corporation
Budapest Holding Corporation
Budapest Investment Corporation
Capitalinvest Ltd.
Capital Limited Partnership
Cel Business Corporation
Co-Nexus Corporation
Consorg Ltd.
Corvinbank Corporation
Creditum Ltd.
Daiwa-MKB Corporation
Deak & Deak Ltd.
Dunaholding Corporation
Economix Corporation
Eridamus Ltd.
Ernst & Young-Bonitas Ltd.
ETD Ltd.
Euroinvest Corporation
Egszi-Senior Ltd.
Ferbai Limited Partnership
HIB Ltd.
Hiros Holding Ltd.
Hozam Corporation
Invesztorg Ltd.
Industrial Economy Institute
Know-How Corporation
Kossuth Holding Corporation
Central European Economic Research Ltd.
Kreator Ltd.
Lupis Brokerage Corporation
Macon Corporation
MKB Corporation, Privatization Division
Mininvest Agency
Okolex Ltd.
Financial Research Corporation
Polybasic Ltd. and Hungarobroker Corporation
Portfolio Banking Corporation
Szenzor MC Ltd.
Szimultan Corporation
Szolorg
Valor Ltd.
Vofa Ltd.

This narrowing of the list of experts also affects the enterprises involved in the program, of course. Enterprises whose expert consultants remained under contract to AVU would continue with the consultants with whom they started out. Firms which lost their consultants, and whose conversion into corporations has not taken place

would have to find new partners within a month. Enterprises failing to designate new consulting firms by the second half of June will be placed under AVU state administrative supervision, thus forgoing the opportunity to self-privatize. Corporation already converted, but which lost their previous expert consultant would also have to reach an agreement with a consulting firm included in the new list of consultants.

The above-described transitional situation is expected to be settled within a few weeks, the enterprises left without consultants are expected to find their new consultants, and the program started last summer, including the slowly evolving Phase II is expected to continue until the end of the year. At that point self-privatization is planned to be permanently taken off the agenda.

Or, it could continue....

Who Will Be the New Owner? ¹			
	Workers	Other Hungarian Buyers	Foreign Buyers
Phase I	39%	48%	13%
Phase II	33%	20%	47%

¹ Distribution of the purchase price payable after AVU property in the course of self-privatization by type of buyer, reflecting all contracted sales (as of 18 May 1993)

Source: PRI-MAN, Ltd.

* Banking Supervision Chief on Situation of Banks

93CH0687A Budapest HETI VILAGGAZDASAG in Hungarian 29 May 93 pp 39-40

[Interview with State Banking Supervision Chief Katalin Botos by Gizella Tarnoi; place and date not given: "All That Money Belongs to Someone Else"]

[Text] Last fall, soon after some banks went bankrupt, the State Banking Supervision filed a report with the government, primarily about its work and operations, and in conjunction with that, about banks and the banking system. The study was so candid that upon reading about thousands of worries and problems faced by the Hungarian banking industry, one had to conclude that keeping money under the mattress was the best choice. Doing so would be in no one's interest, of course. But to prevent this "nonmarket" idea from occurring to anyone, the Hungarian banking system must certainly be revamped thoroughly. We asked Banking Supervision Chairwoman Katalin Botos (age 52) about the possibility of accomplishing this.

[Tarnoi] Many things have happened since last fall in the financial world—in regulatory activities as well as at banks, and new institutions emerged one after another. Do you attribute these changes to the Banking Supervision's revealing report of last fall? What was the government's reaction to your report?

[Botos] They approvingly accepted the measures proposed in the report, and acted to initiate steps that channeled things in the right direction. Above all, the government made a decision concerning the conveyance of information, we have just reached the point where a data base is taking shape under the leadership of the Central Statistical Office, with our cooperation. It is going to be available to interested persons, the ministries and associated organs, it may even be published for public consumption, short of violating bank secrecy rules, of course. Contrary to common belief, however, the body of data that accumulates at our office and at banks about enterprises is not going to satisfy the presently perceived need for data to prepare enterprises for reorganization. For quite some time, our function has been different from that of the old Planning Office, we do not maintain files on enterprises.

[Tarnoi] This also means of course that the Banking Supervision does not collect sufficient in-depth information to permit one to judge the performance of individual banks....

[Botos] We do not have to maintain such records, I beg of you, this is not the function of the Banking Supervision.

[Tarnoi] Forgive me, but during last year's bankruptcy of banking institutions more than one prestigious banking professional said that businessmen should learn a lesson from this incident, they should learn that not only the corner grocer, but banks, too, must be properly chosen. How could a simple depositor make choices at a time when not even the Banking Supervision has the appropriate information?

[Botos] Let's not mix apples and oranges! We are talking about something entirely different! I will say this 50,000 times if needed, and this should not offend either the readers or the journalists: A small depositor need not be concerned about depositing his money into any existing bank, because his deposit is insured under all circumstances up to 1 million forints, and this is even more true from now on. The Banking Supervision agreed to draft the deposit insurance law; this would not necessarily have been our function, but we felt that we should participate in drafting this law.

[Tarnoi] Are you referring to the Deposit Protection Fund?

[Botos] Among other things. We constantly agree to accept such burden, to perform extra tasks, but we know that it is of utmost importance from the standpoint of secure banking operations to reassure every depositor at least up to the level of 1 million forints, so that they do not have to worry even for a minute about where to deposit their money. Throughout the world deposits are guaranteed in varying degrees. We followed the European standard: The 1 million forint level corresponds with the EC minimum standard. In other words, small depositors need not learn a lesson from last year's events, the government does. It must be brought to understand

that even within the framework of a market economy there exist certain prominent interests which, in case of private property, necessitate state intervention, because the government's interest in depositors is rather significant, from a political standpoint because they are voters, as well as from an economic standpoint. The banking system operates on the domino principle, banks are economic bombs which emit ripple effects if they explode, they can cause immeasurable damage unless defused on time. The government can only move on a constrained path after the bomb explodes. This is so in part because the government is responsible for the citizens' money—it created a law after all, and law-abiding citizens must and will enforce that law, and in part because the National Bank is going to advance funds for the Deposit Protection Fund, to enable it to make payments to depositors, and in this regard, too, the whip cracks on the government's back. Who owns the National Bank, after all? In the final analysis the finance minister, i.e., the state. In other words, the government cannot get rid of this responsibility.

[Tarnoi] In asking this question I had mainly large depositors in mind, businessmen, those who must maintain current accounts, who should be able to judge banks, even though they are not financial professionals.

[Botos] Unfortunately, in reality, they were the ones who had to pay the tuition for learning this lesson, and this was very inappropriate. But it was probably unavoidable; society had to exert pressure on the government and its bureaucrats in order for them to think somewhat differently. When I said bureaucrats, I meant this in the good sense of the term, because they already tried to play money market during socialism, and in this spirit they were more holy than the pope, their faith in the market was greater than that of people in the West. They must understand that there are some public purpose, important things, for which it is worthwhile to restrict the market economy—in this case the independence of the owners of banks.

[Tarnoi] Your words suggest that you agree to a maximum extent with things said in those days, i.e., that one should take a look at a bank before using it.

[Botos] I do not agree with this to a maximum extent, as long as you are referring to small depositors. If someone asked me which bank he should deposit his money in, I would say that in any bank that has a permit to operate.

[Tarnoi] With this advice people would have gone bankrupt had they deposited their money in the Ybl Bank, for instance.

[Botos] I have pondered this many times during sleepless nights. All I can say is this: I will face anyone, because I am certain that later on, any aspect of economic history, sociology, economics, legal theory, or any branch of social science dealing with the economy is going to say that every action in the matter of the Ybl Bank taken by the Banking Supervision, and personally by me, was correct. Thank God, we started out on the right track

when, in 1992, based on a law adopted in 1991, we held up a mirror to every bank, and at that point we had a hunch of how the banks really were. And while we were busy looking through the manikins in the truth-telling mirror, and noted that some of them were not as beautiful as they seemed, a few of them made their way out of the room, not only because they were not so beautiful, but because they also limped. Unfortunately, as a result of this, we spent the entire year 1992 struggling in two directions. On the one hand, while observing the rules of bank secrecy as required by the banking law, and aware of the information we had, we tried to persuade the associated organizations to take the appropriate steps. On the other hand, we were also busy with the troubled banks. It was not at all fortunate for us to have to do this many things, because less time and energy was left to deal with banks which also experienced problems, but whose problems had not become so intensive as of that date. But there was no other organ that could have performed these functions.

[Tarnoi] Even though in the third quarter of 1992 it became evident that every bank had problems.

[Botos] As early as in March 1992 it was revealed that banks would not only fail to make payments to the state, but would demand huge refunds if they performed on their obligation to build targeted reserves for the previous year. This evoked a big debate. They said that the classification system was wrong, that the banks wanted to steal money from the budget, even though there was not much money there anyway. The Banking Supervision waged a desperate fight with everyone involved, asserting that allowing the banks not to build targeted reserves—at least this much!—was needed by the banks at the time and also in the upcoming years, if we wanted them to perform like Munchhausen and permit them to be able to pull themselves out of their situation of not having capital. Each and every bank struggled with a shortage of capital—I do not have in mind joint banks and recently established foreign financial institutions, of course—and this was the reason for their insufficient risk-bearing capacity. These banks were allowed to continue operating with a shortage of capital, and during the past period even the remainder of the capital was syphoned out of them by taxing their income, an income that was not even collected, claiming that the banking sector was a highly profitable business. Undoubtedly, some of them are able to produce income, but this income should be used primarily to capitalize themselves. To the average person banks seem to have an awful lot of money. They do, but all that money belongs to someone else, and that money is not really income, it is not capital. Well, this is the lesson everyone had to learn, including the banks, the Ministry of Finance, businessmen and citizens.

[Tarnoi] Last fall's study characterized the banks as follows: They were inaccurate and undercapitalized; failed to accumulate targeted reserves; assumed excessive risks; failed to manage their liquidity; regularly fought brush fires and had a low quality portfolio.

[Botos] This listing was an inventory, and no one ever ate everything that was offered on the menu.

[Tarnoi] The key sentence had this to say: "Banking leadership in general is unprepared."

[Botos] This is true. A majority of our bankers was, or is incapable of modern risk management. No wonder: they came from a central bank that functioned under conditions established by the Planning Office, most of them did not even know what a real bank was. Many of them have already learned the business, and the banks where these people work function well. The newcomers, banks owned by foreigners, select for themselves the solvent clients, they finance only a few clients, they collect lots of money from those clients, they do not lend money to risky ventures, but instead involve themselves in securities transactions. Accordingly, some have already learned this trade, but the market is big, and many more bankers should be competent in their field. Incidentally, our banks are unfamiliar with managing liquidity also because they lack the appropriate computer base. An additional concern presents itself due to the incomplete structure of the banking system as a whole. Another laudable study prepared by the MNB [Hungarian National Bank]—we are not envious, anyone can have the glory, only the country benefits—also exists, it contains a large number of details concerning our earlier analyses; it points out the lack of structure in the banking system, for example. I was among the first to say that there were too many tiny banks which could not find their places next to the oversized mammoth banks. The small ones are unable compete with the large ones on a broad scale, they must make a living mostly from the interbank market, in other words, they have access only to costly, high-interest resources. This is part of the reason why they are dependent; anything that comes through an intermediary can be retracted at any time. But there is an interesting aspect to this: Despite the differences in interest rates, the portfolios of the small Hungarian banks hardly differ from those of the large banks. Just like the sea is reflected in a drop of water, this too reflects reality; no specialization has evolved among the banks. We do not yet have a specialized, complete service that can be offered by some to acquire a better clientele. And whatever bank was worthy of being picked from among the average banks has already been picked by the jointly owned banks.

[Tarnoi] For how long can we forgive banks the lack of appropriate competence?

[Botos] This is not forgivable, but I must ask: What can be done?

[Tarnoi] For example, training could be provided.

[Botos] At that time we already recommended that bankers, the managements of banks be required to take examinations. The problem was that the profession manifested great resistance to this proposal at the time. They might have accepted the idea had everyone sensed the true responsibility behind this thing, and had we

acquired the required prestige. We were torn apart throughout the entire year, instead. Everyone knocks on our door, they ask whether this is the State Accounting Office, the Treasury Control Office, the Ministry of Justice, the authority that persecutes crime, in other words they actually do not know what our function is. We, too, should be placed where we deserve to be. But let us give it another three years, and, I believe, we will have an appropriate number of bankers of an appropriate quality. Because I very much agree that the quality of management is absolutely decisive from the standpoint of banking security.

[Tarnoi] The Financial Institutions Law is in the process of being amended. What is the essence of the amendments?

[Botos] Above all, we would like to omit certain prohibitions from the law. We would like to see the banks authorized to pursue universal activities, such as dealing in securities. We would like to expand the scope of preventive measures that could be taken, such as extending the authority of the bankruptcy law to also cover banks. We would like to see a supervisor appointed by us to head one or another troubled bank to have greater authority than he has today, because at present he can only veto certain actions, but has no authority to take action. And we would like to expand information exchange between the National Bank and the Banking Supervision. And another very important thing: in the future, uncollected interest after outstanding loans should not be part of the financial statements of banks. These funds should not be part of the taxable base, and should not be considered as a basis of paying premiums to bank managers. All this becomes effective only if [credit] consolidation establishes a normal situation in banks, only then can we effectively hold banks to account for deviating from the norm.

[Tarnoi] What do you expect to see as a result of bank privatization?

[Botos] First of all, we are going to proceed with the care provided by the good custodian: We are not going to concentrate on instant revenues, before that we are going to perform "improvements that provide guarantees," and we are going to reveal hidden flaws. In the near future we are going to be able to privatize only those banks in which the volume of accepted risk does not exceed the amount of capital plus the reserves, i.e., their ability to take risks. Everyone knows that most of the banks are not in this situation today. This is why the "upgrading cure" of consolidation is so important. After that we must pursue cautious business policies. Everyone must learn at last, that business and morality are not mutually exclusive concepts, that one can get rich by doing honest business, at most the process of getting rich takes longer.

* Suspended Negotiations on Proposed Defense Law

* 'Opposition's Inflexibility'

93CH0720A Budapest UJ MAGYARORSZAG in
Hungarian 10 Jun 93 pp 1, 5

[Article by Maria Rozgics: "Stalemate at the Six-Party Negotiations of the Defense Law Due to the Opposition's Inflexibility"]

[Text] "I regarded further negotiations as superfluous, therefore I terminated debate relative to the legislative proposal on national defense, the passage of which requires a two-thirds affirmative vote of parliament; at the same time, as authorized by the minister of defense, I suggested to the parliamentary committee that it go ahead and schedule general debate over the legislative proposal," this newspaper was told by Defense Ministry political State Secretary Laszlo Szendrei. Months of political skirmishes taking place behind closed doors proved to be futile at last, despite the fact that concessions made earlier by the opposition created the semblance of potential common grounds for agreement.

State Secretary Szendrei said that previously the government had refrained from publicizing all the negative experiences, experiences they want to publicize now that the series of negotiations has failed, in hopes that the opposition would show at least some willingness to compromise. The state secretary feels that the Hungarian public has a right to know that the government was amenable to reach any agreement consistent with the Constitution, or not in conflict with rulings of the Constitutional Court.

Despite the fact that throughout the negotiations 12 well-prepared professionals from the Ministry assisted all participants in the negotiations with appropriate, specialized information, opposition representatives failed to appropriately take advantage of the given opportunities. Throughout the negotiations they engaged in political arguments, and raised virtually no substantive objections. As discussions were coming to an end, the Ministry wanted decisions with respect to several hundreds of proposed amendments the negotiators had already discussed, but representatives of the SZDSZ [Alliance of Free Democrats] and of the MSZP [Hungarian Socialist Party] completely ruled out any possible compromise. Despite previous inclinations to support the constitutional amendment, the two opposition parties expressed disagreement and said that they could envision the passage of the national defense law only in the framework of the present Constitution.

Szendrei stressed that the Ministry had presented the government's position in clear terms throughout the negotiations; they wanted to dispel opposition concerns by including several kinds of guarantees in the law. They were willing to go so far in reconciling diverse views as, for instance, providing rules relative to the border

guards, spelling out the area in which border guards could be deployed, expressed in terms of a number of square kilometers.

FIDESZ [Federation of Young Democrats] arrived at yesterday's meeting with a six-point position paper that spelled out all their conditions for compromise. The state secretary pointed out that the other two parties should have taken a similar approach in order to initiate substantive debate over pivotal issues. In the state secretary's view, the position taken by the other two opposition parties could never have served as a basis for debate: They disagreed with everything, requested changes but failed to state what kinds of changes they wanted and how they wanted to accomplish those changes. This attitude was characteristic of the MSZP in particular.

After failing to reach agreements even after repeated discussions of the most important issues, the Ministry decided that it no longer made sense to continue with the discussions. Nevertheless, the Ministry is going to prepare amendments to the legislative proposal reflecting compromise agreements reached in the course of negotiations.

In conclusion the state secretary said that parliament could start general debate over the national defense law in late June or early July at the latest, and could continue debate during the fall session. The government expressed confidence in bringing the various viewpoints closer during the summer and hopes that the two-thirds law could be completed during the fall. Szendrei stressed that legal provisions presently in force did not provide even minimum guarantees regarding a number of issues related to matters covered by the new legislative proposal, but despite this fact, the opposition blamed mostly the lack of guarantees.

Last, but not least, all negotiating parties must be aware of the fact that the new law goes far in determining the existence of the Honved Forces, in conditioning their activities, and in creating a profound impact on the lives of military personnel. Under present conditions the uncertainty to which the army is condemned constitutes a greater irresponsibility than the possible flaws contained in the form of the legislative proposal.

* FIDESZ's View

93CH0720B Budapest UJ MAGYARORSZAG in
Hungarian 10 Jun 93 p 5

[Unattributed report: "Let the Government Direct the Armed Forces; FIDESZ on National Defense and the Prosecutor's Office"]

[Text] FIDESZ expressed its position regarding the laws governing the Prosecutor's Office and National Defense at a press conference yesterday, with Party Chairman Viktor Orban claiming that "The moment of truth are about to come."

The Hungarian Constitution establishes very strict criteria for the use of the armed forces, and requires a high level of decisionmaking authority. This arrangement could be regarded as clumsy and slow in today's threatened situation, however. Therefore the party's board finds it necessary to empower the executive branch to take the necessary action in case of an unexpected enemy attack independently, with a requirement to immediately notify the National Assembly and the president of the Republic of such action, and while observing the guarantees.

Regarding the place where the border guards belong, the FIDESZ board feels that since most functions performed by the border guards are regulatory in character, that branch of the armed forces be removed from the Honved Forces, and be granted a similar legal status as that of the police. In that case the FIDESZ board regards the performance of military service by Hungarian youth at the border guards as a distinct possibility. Soldiers must be entitled generally to the same human and civil rights as all other citizens.

The action company, as an intermediate organization, is closely related to the preservation of the country's security; a decision must be made in the future as to where the action company will belong organizationally, whether it should be part of the Honved Forces, or of the border guards. The action company must not be used for domestic policy purposes, but only to maintain order along the borders. In due regard to practical considerations, the government must subordinate the armed forces to the Honved Forces. According to Constitutional Court ruling No. 48 of 26 September 1991, "the commander of the Honved Forces exercises his leadership authority only in a manner consistent with the provisions of individual directives, and only within the limits of such individual directives." FIDESZ recommends that the government be authorized to direct the armed forces, but that the government not be allowed to become involved in the operations of the armed forces, except through the commander of the Honved Forces.

The passage of the law on prosecutors depends on certain conditions: Guarantees for the full independence of courts, and the introduction of the institution of a court of inquiry are indispensable.

* SZDSZ's View

93CH0720C Budapest UJ MAGYARORSZAG in
Hungarian 10 Jun 93 p 5

[MTI report: "The SZDSZ Would Continue"]

[Text] "The Ministry of Defense unilaterally halted political negotiations regarding the legislative proposal on national defense," SZDSZ representative Imre Mecs, vice chairman of the National Assembly Committee on National Defense said. The representative believes that the Ministry of Defense's stance contradicts its own concept espoused earlier, because originally they

intended to submit the legislative proposal without provisions to amend the Constitution. The Ministry is now submitting a half-baked document to the plenary session; the adoption of this law is in doubt because it requires the affirmative vote of a two-thirds majority. Mecs stressed that the SZDSZ is prepared to continue substantive discussions regarding this matter.

* SZDSZ Deputies' View

93CH0720D Budapest MAGYAR HIRLAP in
Hungarian 11 Jun 93 p 5

[Unattributed report: "SZDSZ on the Proposed National Defense Law; Negotiations Must Continue"]

[Text] The Free Democrats did not expect the government to suspend six-party negotiations on Wednesday concerning the proposed national defense law, National Assembly Representatives Imre Mecs and Gabor Vilagosi told the press yesterday. They issued a statement objecting to the fact that the government proposes to amend the constitution in order to prevent unexpected, dangerous situations. FIDESZ also supports the government's proposal.

Three more days would have been needed in order to have an appropriate legislative proposal on national defense, according to Vilagosi. This is why the government's decision to suspend the six-party negotiations that have been going on since April was incomprehensible. Nothing good can come from submitting an inadequately prepared legislative proposal to parliament, he said. Mecs stressed that SZDSZ representatives manifested great willingness to contribute to perfecting the legislative proposal, and submitted studies containing several alternatives for the resolution of disputed issues. Thus he could not agree with the statements of State Secretary Szendrei, according to which the inflexibility of the SZDSZ and the MSZP prevented the timely completion of the legislative proposal. In their statement the two representatives explained that government proposals to amend the Constitution would terminate the state's duty to provide for constitutionally guaranteed civil rights, and for the country's independence and the inviolability of its territory. The practical problem is that proposed changes in the basic law require participation in the maintenance of order beyond the general duty related to national defense, and mandate youth to perform functions related to the maintenance of order. On the other hand, the SZDSZ believes that deployment of the armed forces would not be justified unless emergency conditions were declared, and the management of possible dangerous situations would not become more operational, should the decisionmaking authority be transferred to the government. Existing provisions of the Constitution authorize the president of the Republic to proclaim extraordinary or emergency conditions, or a state of war, if the National Assembly is impeded in performing this function. The SZDSZ will continue to

do everything it can so that the new law provides a better solution than before from the standpoint of the country's defense.

* Central Bank VP on Exchange-Rate Policy

93CH0674D Budapest FIGYELO in Hungarian 20 May 93 pp 20-21

[Interview with Frigyes Harshegyi, Hungarian National Bank vice president, by Eva Czelnai at the Hungarian National Bank in Budapest; date not given: "It Is Not Possible To Pursue Separate Courses in Exchange-Rate Policy and Interest-Rate Policy, Respectively"]

[Text] *According to the Hungarian National Bank's vice president, export's loss of momentum, already of six months' duration, does not warrant more frequent exchange rate adjustments than up to now.*

[Czelnai] Can a revaluating exchange rate policy be brought in harmony with the general objectives of economic policy, in spite of export's coming to a standstill?

[Harshegyi] In our exchange rate policy for 1992 and again for 1993, we identified the war on inflation as the primary objective. For it was evident already in 1991 that our balance of payments is improving to a large extent. Therefore foreign exchange policy does not have to serve to increase foreign exchange earnings at all cost, and it is not absolutely necessary for, respectively, the current account and the overall balance of payments to be in surplus. Indeed, instead of the more than \$2-billion deficit planned for the three years (1990-92), a surplus of about 700 million dollars developed during that period. From this it unambiguously follows that exchange rate policy has been able to remain revaluating in real terms. Instead of revaluation in real terms, the objective of exchange rate policy for this year is to maintain the level [of the forint's exchange rate].

[Czelnai] The intention to let exchange rate policy be moderately revaluating or level-maintaining lends itself to several different interpretations. It could mean that henceforth we will adjust for every revaluation. But there is also the opinion that an adjustment is necessary for the 20-percent revaluation in real terms during the past three years.

[Harshegyi] This latter adjustment would be a mistake. Ex post devaluation of the forint, under pressure from some interest group or other, just to correct an earlier revaluation in real terms, would make no sense. A level-maintaining policy always points ahead and has to be valid for the following year or next six months. But there is one thing everyone should bear in mind; namely, that the central bank's primary task is to maintain the value of the issued currency. Devaluation of the currency to an extent absolutely essential for supporting the government's economic policies is only an indirect task of the central bank. Consequently, as long as the exchange rate does not threaten external equilibrium, the

possibility that the Hungarian National Bank might change the exchange rate cannot even arise.

[Czelnai] How does the desire for economic growth influence our present exchange rate policy?

[Harshegyi] It is not possible to pursue separate courses in exchange rate policy and interest rate policy respectively. Everyone forgets that an objective of the government's economic policy is to bring down interest rates. Partly because high interest rates widen the state budget's deficit; in other words, because it becomes more expensive to service the national debt. And partly because high interest rates are an obstacle to credit expansion. As a part of economic policy, therefore, it is not possible to set the goal of reducing interest rates to 16 or 17 percent, which presupposes a relatively low rate of inflation, and at the same time to urge inflation-fueling devaluation in exchange rate policy, just because some export or other is unprofitable. These two goals are mutually conflicting.

On the other hand, exchange rate policy must not create the impression that devaluation is necessary to improve the economic climate. Exchange rate policy is only economic policy's tool of last resort. Maintaining the equilibrium of, respectively, the international and domestic balances of payments is the primary responsibility of economic policy and fiscal policy. The final objective is to curb inflation and to have low interest rates, as a prerequisite for economic growth. Naturally, the rate of inflation cannot fall when we devalue. Not to mention the harmful effects of irresponsible statements; for it is a proven fact that expectations of inflation play a very important role in inflation itself. Until we succeed in bringing the rate of inflation down to a suitable level, exchange rate policy must remain revaluating in real terms. There is no other option.

[Czelnai] How low does the rate of inflation have to be brought down to permit a shift in exchange rate policy?

[Harshegyi] Based on the industrial price level—for primarily that is what counts in foreign trade, and thus also when considering devaluation—in the case of single-digit inflation it would be possible to aim for a stable exchange rate.

[Czelnai] The question in the present case reads as follows: What rates of devaluation and how frequent devaluations can come into consideration?

If there is a rise of 12 to 14 percent in the domestic price level, and a rise of 3 or 4 percent in the foreign price level, then there could be a 1-, 1.5- or perhaps 2-percent devaluation on two, three or four occasions. Any devaluation by significantly more than 2 percent must be ruled out in advance, because that would already spill over into the price increases.

[Czelnai] Many people question the mathematical models used for these computations.

[Harshegyi] Nowadays mathematical models are not our only tool for monitoring how the real value of the forint is developing. If the forint's quoted exchange rate in the interbank foreign exchange market or in Vienna is not different [from the central bank's exchange rate], then we do not have to rush to devalue.

Namely, the forint is fully convertible for banks, and they may quote any exchange rate they like. In spite of this, the market during the past 10 months has not departed from the central bank's exchange rate. Consequently, there is no signal whatsoever from the market to indicate that the exchange rate's level is not the right one.

Therefore I must disabuse all those who believe their textbooks that, sooner or later, a huge adjustment becomes necessary after every revaluation in real terms. We are in a transforming economy, to which the classical rules do not apply mechanically.

[Czelnai] We attained the exchange rate's present level by tying the forint to a basket of currencies in which the dollar and the ECU each account for 50 percent. What considerations of economic policy would support tying the forint solely to the German mark?

[Harshegyi] Actually, it almost would be all the same if the forint were tied either solely to the dollar, the German mark and the ECU respectively, or to any combination of these currencies. On the one hand, when the present basket of currencies was established, it agreed more or less with the commodity structure of our foreign trade. On the other hand—and this argument still remains valid—European currencies, including the ECU, are moving against the dollar. Consequently, hectic movements can be eliminated by halving the basket, whereby the wide amplitudes of the swings are dampened. This is a technical matter.

The interesting implication in your question is the objective of economic policy and exchange rate policy it presupposes. Taking cognizance of the fact that the German mark is the soul of the ECU—and nobody can deny this, not only because of the German mark's weight within the ECU, but also because of the stability of the German mark's exchange rate—we would be making it obvious that we have set for ourselves a goal that would be exerting a pull of sorts. But there would be essentially no change in our exchange rate policy. Small devaluations would still be needed even if we were to tie the forint to the German mark.

Today, incidentally, the only argument in favor of retaining the present basket of currencies is that the dollar is still showing wide swings against the European currencies. That is the conclusion reached in the analyses conducted here in the Hungarian National Bank. But we have not yet considered making a change.

[Czelnai] Last September the Hungarian National Bank was preparing to replace the ECU with the German mark. Is this topic still on the agenda?

[Harshegyi] Last September it seemed that the ECU would cease as a currency. Its exchange rate was not quoted automatically, and even in the markets its rate had to be compiled artificially. Therefore it was quite natural that the question arose of replacing the ECU with the German mark. That is something we could do anytime.

Even since then, unfortunately, the international markets' rating of the ECU has been declining. The Maastricht Treaty has been queried, and that makes itself felt in the international bond markets. There have been no ECU bond issues. In other words, no capital has been formed, and therefore the market has virtually ceased. Instead, the role of national currencies—of the German mark, French franc and Spanish peseta—and of the Eurocurrencies has been strengthened in capital accumulation and investment.

* Situation of Joint Ventures Discussed

93CH0674A Budapest HETI VILAGGAZDASAG in Hungarian 22 May 93 pp 73-74

[Interview with Ivan Toldy-Osz, president of the Joint Venture Association, by Ibolya Jakus; place and date not given: "The Problems of Joint Ventures. They Are Being Bridled"]

[Text] *The flow of functioning capital into Hungary during the past two decades totaled about 5.5 to 6.0 billion forints, within which the value of so-called greenfield investment projects was 3.5 billion forints. All this happened despite the growing reluctance of Hungary's economic decisionmakers to pamper foreign investors. That is what came to light in the course of our interview with Ivan Toldy-Osz, the president of the Joint Venture Association. Through his association's 400 members and their business interests, he has up-to-date information about the problems of the approximately 1,500 joint ventures.*

[Jakus] A few years ago, foreigners investing in Hungary were being hailed practically as messiahs. Nowadays, however, certain persons, including circles close to the center of power, will be referring to them before long as the country's plunderers. Who are the investors who have decided to stay in spite of their ambiguous welcome, where do they come from, and how much money have they actually brought into the country?

[Toldy-Osz] Since 1972, the year when the founding of joint venture first became possible, between 4.5 and 5.0 billion dollars of functioning capital flowed into Hungary from abroad, 85 percent of it after 1988. But to this we should add, in my opinion, the foreign loans for whose repayment no loan guarantees were required from Hungarian banks. Such foreign loans are reflected in the investment, but not in the capital. By my estimate, these foreign loans were of the order of 500 to 600 million dollars. Furthermore, the increases of the capital stock, which likewise are not included in the statistics, amounted to approximately the same total. Sixty percent of the flow of capital was channeled into manufacturing;

4 percent, into the electric power, gas and heating industries and the management of water resources; and 6 percent, into the construction industry. Contributions in kind accounted for 20 percent of the direct capital investment, and 80 percent was in cash. The United States supplied 33 percent of the functioning capital; Germany, 14 percent; and Austria, 10 percent. So far as the attitude to foreign capital and joint ventures is concerned, it is obvious that foreign investors come here in order to make a profit. If that profit is of an order of magnitude such that it can already be called "exploitation," then this depends to a large extent on what kinds of contract have been concluded with the foreign investors. For it obviously holds true in this case that it takes two to close a bargain. There was indeed much amateurish contracting in the past, but the number of such blunders has declined sharply during the past two or three years. This leaves only the following question: Is it really exploitation if a multinational corporation directs trade between its companies in a way such that the profit is realized where the tax on it is the lowest?

[Jakus] Joint ventures enjoy various advantages, including tax breaks, also in Hungary. Do these advantages provide sufficient incentive for foreign capital, and within it for persons wishing to invest in production in Hungary?

[Toldy-Osz] Only the so-called State Fund for Investment Stimulation functions as a definite investment incentive. The size of this fund, however, is becoming ever smaller. Last year the fund had 1.8 billion forints from which joint ventures could obtain subsidies for the infrastructure's construction "beyond their fence." This year only 1.5 billion forints is available for that purpose. Moreover, the state will be able to use a part of this year's amount to invest in stakes in several large corporations. For instance, the state will extract several hundred million forints from this fund to buy Suzuki shares when that corporation raises its capital stock. In addition, joint ventures may claim a subsidy of 100,000 to 500,000 forints for every job they create in an economically depressed area. Land provided free of charge or at low cost, and preferably equipped with all public utilities, has perhaps the greatest attraction for investors. But investors can count on obtaining such land only at the discretion of local governments, and depending on what the latter can afford to provide. So far as the tax reductions still in force are concerned, they may be claimed if the following three conditions have been met: foreigners must have at least a 30-percent interest in the joint venture; its capital stock must be more than 50 million forints; and more than 50 percent of the joint venture's operating revenue must stem from industrial activity. Depending on what type of economic activity the joint venture engages in, the rate of reduction is either 100 or 60 percent during the first five years of operation, and 60 or 40 percent during the second five-year period. Another tax break is that if the foreign investor does not repatriate the profit but reinvests it

where the profit was earned—i.e., in Hungary—then he may claim a refund of the [corporate income] tax on this portion of the profit. The trouble is that this tax break will cease at the end of 1993, and reinvestment of the profit for that year will be the last opportunity to claim a tax refund. And the tax reductions will apply only to those joint ventures that will have been in operation by the end of the year. We are aware, of course, that the competent authorities are planning to replace these tax breaks with new ones. But the problem is that the phasing out of the present tax breaks has already been included in the Tax Law enacted in 1992, while the new tax breaks exist for the time being only in the minds of the officials concerned.

[Jakus] Does your association have any suggestions regarding the new tax breaks?

[Toldy-Osz] Believe it or not, our association is proposing the restoration of the tax reductions in their original form, for two five-year periods. This might mean a loss of face for the legislators, but it would satisfy the very strong foreign expectation that we refrain from constantly changing our statutory regulations, because that leads to legal uncertainty. But, as I have already mentioned, there is one change we would welcome: that the reductions of corporate income tax be applied also to Hungarian firms of the same size and engaged in similar activities. In that case it might be worthwhile to consider raising the minimum capital stock from the 50 million forints at present, to 100 million. Our opinion is the same about changing the rules on refunding the tax on reinvested profit: eligibility to claim a tax refund ought to be extended also to Hungarian businesses, in exchange for which the amount of the refund could perhaps be reduced to 50 percent of the tax paid. Over and above these changes, we think it has been a serious mistake to collect VAT on capital contributions in kind as of 1993. Admittedly, a claim for a refund can be filed, but the whole procedure could cause serious liquidity problems. In the case of a contribution in kind worth 500 million forints, for instance, a firm would need to have 125 million forints of additional resources, to tide it over the two or three months until the tax office refunds the paid tax.

[Jakus] Aside from the general statistics already discussed, what is there to know about the circle of businesses in question?

[Toldy-Osz] Regrettably, our information is very sketchy. But the data compiled by the Institute of Industrial Economics in 1991 provide some guidance. Two years ago, the 9,100 firms included in the institute's survey had combined total sales of 1,060 billion forints, including 200 billion forints of export sales. The net worth of these firms reached 480 billion forints. Foreigners held a 45-percent interest in these firms, while Hungarians had a 55-percent interest. The firms employed a combined total work force of 300,000. The average gross monthly wage per worker was 20,000 forints, 4,000 forints higher than at state enterprises. The

combined total profit of the joint ventures was 11.277 billion forints, of which only 2.0 billion was repatriated. When considering the amount of repatriated profit, it should be noted that we obtained this result by subtracting from the combined total profit of the joint

ventures their combined total loss—including, for instance, the 6.0-billion-forint loss of the large industrial corporations. Consequently, the profits of the profitable joint ventures added up to substantially more than the amount given above.

*** Parliamentary Oversight of SRI Discussed**

93BA1054A Bucharest BARICADA in Romanian 18
May 93 pp 16-17

[Interview with Senator Radu Timofte, president of the Commission for Defense, Public Order, and National Security, by Doina Antonie; place and date not given: "We Have Professional Patriots"]

[Text] [Antonie] It is being said, Senator, that you consider running against Virgil Magureanu. Is this true, and if so, will you go ahead with it?

[Timofte] I don't believe that it is a matter of running against Magureanu. The Constitution says that the director of the Romanian Intelligence Service [SRI] is appointed by Parliament and nominated by Romania's president. I suspect that together with Magureanu's presentation of the report—that is, the SRI activities report—the president will propose one of two alternatives to Parliament: Either reconfirm Magureanu as director, or propose someone else. Thus far, I have received no such proposal. I suspect that under the circumstances the first one to ask would be me, don't you think?

[Antonie] And if you were to receive such a proposal?

[Timofte] I think I would have to think very hard.

[Antonie] As president of the Senate Commission and as senator of the majority party, what is your opinion of the changes brought to Law No. 35, regarding land sales rather than land leases?

[Timofte] I would like us to talk about topics that concern the activities of the Commission for Defense, Public Order, and National Security. I'm ready to answer any question. I would not want to have an answer to your questions be misinterpreted, since I don't consider myself well prepared in other areas of activity.

[Antonie] With regard to what is happening in the Republic Moldova, in particular with regard to the Tiraspol trial, and with the growing social discontent, what position do you believe General Lebed will adopt? Especially since the General is known to have made statements about helping orthodox brethren in the former Yugoslavia.

[Timofte] If you're asking me about Lebed, I can certainly tell you several things. The General is first of all Russia's problem, then Ukraine's, and only thirdly could be a problem for Moldova. It is even less our problem, insofar as Moldova and Romania are independent. There is no way for our government to be involved in Lebed's activities. What I can tell you, is that in the United States it is said that Lebed has freed the 14th Army from any control, a situation that is worrying not only the Russians, Ukrainians, Moldavians, or Romanians, but the entire world as well. I can also tell you that we have some information showing that the traffic of weapons and ammunition at the border comes precisely

from this army's arsenals. Therefore, this confirms that the 14th Army is free from any control.

[Antonie] We know that in Transylvania, the church reformation in the 16th century took place without any bloodshed. Now, if the Sovereign Pontif will follow the invitation to visit Romania, what do you think will be the position of the UDMR [Democratic Union of Hungarians in Romania] and the Greek Catholic Church?

[Timofte] I can only conjecture or interpret, because I usually don't meddle in other sectors of activity, but I'm glad to do it for you. I think that the UDMR will adopt the same position it has adopted so far in similar situations, trying to take all the credit for itself. I don't think it will initiate social actions or the like, given that the situation here is somewhat stabilized and there is no question of repeating what happened in Slovakia, Slovenia, or other areas that adjoin Hungary. This might seem to be a portentous statement, but that's what I think.

[Antonie] We know that everything is being done to finally present the SRI report to Parliament. Should the activities of this agency be found inadequate, can we talk about an immediate program to improve them?

[Timofte] The SRI report is presented to a plenary session of Parliament, as stipulated by the Constitution and by the Law for SRI's organization. Chronologically, the report should be presented immediately after the Parliamentary Oversight Commission is formed, and the commission in turn should examine the person nominated by the President for the function; in other words, what I said in response to your first question. Independently of its content, the report will certainly generate deliberations: whether it's good, or it's bad, out of curiosity, and not only curiosity, our fellow parliamentarians will approach this problem from various angles. I don't believe the report will stir up the big waves that are expected, and it will certainly be subjected to plenary discussion, as I've said, but it is not the outcome of these discussions that will generate or determine a proposal to reorganize this service. Of course, the law can be improved, the Law for SRI's organization and operation, even more so since it needs to be adapted to the Constitution and to the laws since its adoption. This does not mean that there will be a revolution in SRI, or a massive restructuring of its personnel.

[Antonie] Parliament itself has mentioned information leaks from its commissions. Is there any possibility of controlling these leaks, and by that I mean a practical possibility and not the one which so far has proven to be purely theoretical, namely the Commission for Discipline and Immunity?

[Timofte] I claim that no information has leaked from the Commission for Defense, Public Order, and National Security. I say this because the colleagues with whom I work, and work quite well indeed, have understood the need to maintain the confidentiality of data and information that reaches the commission. The fact that there was a joint session—and that is the one you

probably mean—which examined General Florica, does not necessarily mean that one of the members of the two commissions disclosed some information; although the possibility does exist. Rather, I think that some information from some commissions appears in the press, and let me point out that I don't refer only to members of Parliament or especially to them. I think that the price of information is now very high and many like to sell it or buy it.

[Antonie] What do you think is SRI's chance of becoming an organization of high professionalism, competitive on the international plane, given that intelligence services in other eastern countries have retained their offensive departments? Don't you think that the defensive nature imposed on such an organization could give free hand to potential adversaries as a result of loss of initiative?

[Timofte] I think that we could have a long discussion on this topic, since the question requires a detailed answer. At first sight, I can tell you that we have professionals in SRI, but the budget does not allow them to collect the data and information relating to Romania's national security. The budget's resources are what they are—you probably were there during the budget debate—and these people cannot stretch beyond the amounts that they have been allocated. But we do have professionals in SRI, real patriotic professionals. About SRI's offensive aspects, let's not forget the law: It is the law that has given the service its defensive nature and I don't think they can stretch the rope beyond their legal functions. Offensive intelligence services do indeed exist in other countries, but they require entirely different expenses. Maybe if the SRI's current budget were three times as large we could also create an offensive structure, as you call it, although I wouldn't call it offensive, I'd express it differently. But as they are presently organized, and within the limits of their allocations, I think that they are doing well. It's a drawback that we accept, but I think that any transition period is faced with the same thing.

P.S. On Wednesday 12 May, 1993, I found out that Senator Timofte was received by President Iliescu in Cotroceni. According to his statements, the object of the visit was not to discuss the possible change of SRI director, nor the corruption scandal triggered by the blistering declarations of the former chief-commissioner of the Financial Guard, General Florica. At this point, Timofte pointed out once more that the solution to the problem is no longer within his functions, but rather within those of the commission that will be formed.

*** Short-Term Fundamental Changes in SRI Unlikely**

93BA1056A Bucharest "22" in Romanian 20-26 May
93 pp 8-9

[Interview with Victor Babiuc, former justice and interior minister and current president of the Chamber of

Deputies Commission for Abuse, by Gabriela Adamesteanu; place and date not given: "To Be Admitted Into the Council of Europe, We Need an Independent Television, a Demilitarized Interior Ministry, SRI Oversight, and an Organized Prosecutor's Office"]

[Text] [Adamesteanu] Why didn't General Florica bring his report to the Parliament Commission for Abuses or the Commission for Defense?

[Babiuc] That is a question that I, too, have asked, but for which I do not have a satisfactory response. It seems that the reason can be found in the fact that these abuses also involve people from the Ministry of Internal Affairs or the Romanian Intelligence Service [SRI]. That is why it was addressed to a commission that deals with institutions of a military nature. I, personally, do not believe we have to leave it there; as a problem of abuses, it is normal that a special commission would deal with it. Apparently, we could operate, if necessary, with the Commission for Defense, but I do not feel it acceptable for us, the Commission for Abuses, not be consulted in regard to this problem. Nor has the possibility been excluded of constituting a separate commission, but one in which we, too, would belong. Thus in a good parliamentary tradition, if the Ministry of Justice is involved in a certain domain, the Parliament does not put together its own commission of inquiry. If it has already constituted one, it ceases the activity. Parliament intervenes, if that is still necessary, only after the Ministry of Justice has finished its work. The Prosecutor General, Manea Dragulin, confirmed in the press that the Prosecutor's Office had officially announced that it would examine elements that General Florica had made available to them. In such a situation I believe that Parliament should wait for the prosecutor's office to finish its work. Otherwise the legislative branch would be interfering in problems of the judiciary.

[Adamesteanu] But has the Prosecutor's Office finished anything during the past three years?

[Babiuc] That is a very good question. For two or three years the prosecutor's office has not finished anything other than routine matters. But the important things that have occurred in Romanian from the Revolution up until now, such as who has shot at us, the miners' action of June 1990, and the miners' action of September 1991—it is still not known exactly what was done, what remains to be done, who contributed, who has to answer for what happened....

[Adamesteanu] The Roman government was formed after the miners' action of 1991. It was said then that if there had not been a miners' action, it is probable that the Iliescu government would have had a different makeup (what today is called the FDSN [Democratic National Salvation Front]).

[Babiuc] Something like that.

[Adamesteanu] To what extent did the miners' action lead to the Roman government?

[Babiuc] I believe that at that moment there was a preoccupation with not creating the impression that what happened in Bucharest happened with the help of the miners. And then the prime minister-designate could form a team without too much interference. This was our good fortune and the bad fortune of those who would have wanted a totally different makeup of the team. I believe that the youth of the team and the fact that the people were unknown, gave those who were unhappy with what occurred a feeling of confidence that we were not sufficiently experienced or versed in administrative activity and therefore could be dominated. After a few months some discrepancies began to appear, less in public, but we began to feel them.

[Adamesteanu] You took on the Justice Ministry with an already heavy backlog (whoever shot at us, plus the miners' action). The Prosecutor's Office has not done what it should have done, but have you done everything that you could?

[Babiuc] I will tell you what I have tried to do, and you can judge for yourself. We inherited, and at present still have, a justice organization foreign to Romanian traditions and to the traditions of democratic countries, with a Prosecutor's Office distinct from the Justice Ministry, in practice not subordinate to anyone. A kind of fourth estate.

[Adamesteanu] And to whom should it have been subordinate?

[Babiuc] It was not subordinate other than to the Communist Party and the *Securitate*, the organ of state power.

[Adamesteanu] But the Communist Party is no longer...

[Babiuc] Yes. For that reason we could not provide a disposition to anyone. Nor could the prime minister. I have had collegial discussions with the two general prosecutors, first with Mr. Robu and then with Mr. Popa Cherecheanu, and I told them in a very amicable way what should be done, the way I saw things. I would be lying if I were to tell you that I met with stubborn resistance in the discussions I had with them. They raised objections to me: that we do not have enough prosecutors, that we are loaded down with a huge number of cases, that the data in connection with December or with June are insufficient. I did not doubt those things, but I still was unhappy not to see a real desire to find the guilty parties. I do not say that anyone was deliberate, and I do not doubt that there were also some real difficulties. But from here to do so little (which is not to say that nothing has been done) to discover who did the shooting in December, who brought the miners in May, who profited from these movements that were uncontrolled or disorderly (at least in their outward appearance)... Because they were disorderly only when perceived from without. In reality there was a coordinating plan. For example, only those of 13 June were charged. Very few of the miners were ferreted out, and as far as I know without updated information, even fewer

were brought to trial. But if you want to clarify something, you have to see both sides of the issue. I do not believe that we can say today that we know, from the Justice Department files, what happened on 13-14 June 1990.

[Adamesteanu] I do not believe it would be very complicated to put together a dossier to bring the principal actors to trial. For example, Miron Cosma.

[Babiuc] It seems that Miron Cosma was not present in June.... I will not contradict you because I do not know. But he was a key figure in September 1991. The police put together a quite substantial dossier (sent to the prosecutor's office during May-June 1992). Meanwhile the report of the Parliamentary Commission came out, which asserts the guilt of Miron Cosma without a shadow of a doubt, while the police dossier, redone to include the observations of the Prosecutor's Office (sent during September or October 1992), also asserts more convincingly the guilt of Miron Cosma and of another citizen, Popescu. It was proposed to send them to trial to undermine the power of the state. The dossier for both persons was returned a second time to the Prosecutor's Office for further supplemental investigation, although (I say this with total conviction) Miron Cosma's dossier was sufficiently well prepared for him to be sent to trial.

When I was at Internal Affairs, I got two dossiers: one for Miron Cosma and the other for Doina Cornea. I told the people in the police department that the Doina Cornea dossier was not a case to be sent to the prosecutor's office; they listened to me and did not send it. I also affirmed their point of view, namely that Miron Cosma's dossier needed to be sent. After I left Internal Affairs, Miron Cosma's dossier was returned to the police. In exchange, Doina Cornea's dossier went to the Prosecutor's Office. A change of outlook that does not appear to me to be just accidental.

I also had other collegial discussions with the General Prosecutor on the subject of the anti-Semitism of some articles that had appeared in the press. I told him why it should not be tolerated and told him that the circumstances had an anti-Semitic character and had to be investigated by the prosecutor's office, with the natural consequences if a criminal character was confirmed. I had discussions concerning those guilty of the country's disaster; I indicated to him that we need not occupy ourselves with minor criminals but rather with the country's highest political leaders who had broken the laws in force. For those guilty of the country's disaster (falsification of elections, collectivization, industrial construction without economic and technical infrastructure, etc.) he had a single objection, connected with the fact that the statute of limitations would have applied. To that I had the following response: That the statute of limitations could not apply because there was a situation in effect of force majeure; all those people were unpunishable. Since they were unpunishable, the clock on the statute of limitations could not have started to run. For them, the clock on the statute of limitations only starts to

run beginning in December 1989. I gave him the example of the celebrated cases of Draghici, Nicolski and others of that caliber. He was not disposed to accept my point of view.

[Adamesteanu] That sort of Prosecutor's Office exists only in communist states?

[Babiuc] In the form in which we have it today it is specific to communist states. However, the prosecutor's office is an older institution. In the form of the prosecuting magistracy we also had it up until 1947-48, organized on the French model, and with good, effective results in the country's history. Moreover, the entire Romanian Justice Department was a well-organized institution up until after the war, with a reputation that was above suspicion. The organizational structure of the Romanian Justice Department changed along with its personnel during 1950. There was a real massacre of Romanian magistrates at that time; well-trained judges with backbone were thrown out and replaced by people of poor quality, including very many people with no legal training. After a few weeks of legal training they were put on the bench as judges. But they did not judge by the Penal Code or the Civil Code, rather in accordance with party directives. Moreover, if the professional judges that were left tried to urge them in the direction of normal resolutions, they were sooner or later disbarred.

[Adamesteanu] The public perception is that the Law School was a seedbed for the *Securitate*. Accordingly, very few graduates could have completed their studies without meanwhile having made contacts with the *Securitate*. Is that true?

[Babiuc] I do not think so. I completed my studies there in 1958. I would not want to swear that not a single one of my colleagues had contacts with the *Securitate*, but I am sure that the large majority did not. This sort of thing might have happened later, during their career progression.

[Adamesteanu] The problem of dossiers is not currently being discussed here, but in Poland (according to what I was told by the political scientist Jakub Karpinski in the interview with "22") there are proposals for future parliamentarians to declare (before being voted on) whether they did or did not have connections with the secret police. Then they could be voted on by the electorate, but with full knowledge of the case. The purpose would not be moral, but pragmatic; do you feel that a person with a dossier risks no longer being able to be free in his political decisions?

[Babiuc] Yes, that is true, he could be blackmailed. We even have elements in the Romanian parliament (past and present). This is the second time I have been asked this question. The first time, the reporter did not like what I said and did not publish it. I believe these dossiers have to be given a different legal treatment for people on trial. For the common man they have to be kept secret so as not to disturb lives and not to further provoke among

us a useless reason for agitating, irritating, and interfering. But everyone should be able to see his or her own file. However, there has to be another criterion for those who will be in the public eye—ministers, parliamentarians, judges of the Supreme Court, the country's president, the Court of Accounts, and the country's representative institutions. The dossiers of these people should be made public so that people will know with whom they are dealing. If after someone's dossier becomes public the voters still believe the man in question is good, he should be elected, well and good. If not, he should stand aside, though as far as I am concerned, it seems normal that he not run for anything ever again.

There must be legal sanctions against illegal publication. (Otherwise we risk becoming a disloyal element of agitation on the part of those who come into contact with these files.) With these compromises it is possible to find a solution that is tempered and appropriate for everyone. But not all the dossiers still exist. Instead there exist counterfeited dossiers, including made-up collaborators of the *Securitate* with false names.

[Adamesteanu] If you confirm this, it means you may even have an example in mind.

[Babiuc] Madam, I have several examples. Now let us not...

[Adamesteanu] I'm not even going to ask. But there exists the possibility of expertise in the papers, the inks, etc, for verifying the authenticity of the dossiers.

[Babiuc] That is true, but until an analysis is made, there is doubt with respect to that citizen. And what are we to do about those that have disappeared? Because now I do not know for how many years, under whose disposition or up until what date the dossiers were destroyed. Thus we have today only the dossiers of younger *Securitate* people; those from further back have been lost. After the Revolution the entire archive of the *Securitate*, including the archive of the Ministry of Internal Affairs, was taken by the Army. After which, a government decision was handed down that set up several categories: dossiers of people put on trial and consequently convicted (that, at present, are in the Ministry of Justice), dossiers of people under investigation but not put on trial (that are in the prosecutor's office) and dossiers that are of interest to the national security establishment (that remain with the SRI).

[Adamesteanu] Is it possible that some of the dossiers destroyed here exist in the archives of other Eastern countries including those in Moscow?

[Babiuc] It is not out of the question that we might find in Moscow a lot of things that we do not know about today or that we think no longer exist anywhere. The KGB was a very powerful and well-organized institution. The intelligence services of the former socialist countries worked for or with them. It was the KGB that, in effect, ran the intelligence services of the respective countries, before those services began operating independently.

Evidently they have accumulated an immense archive which they brought to Moscow. I will not hide from you the fact that both I and the Ministry of Internal Affairs were interested in getting access to the archives of the interior ministries and of the KGB. The Director General of the State Archive was sent to Moscow and has even concluded agreements with the Russian authorities. We shall see how that will work out in practice.

[Adamesteanu] The State Archive was considered a *Securitate* stronghold. You are not going to tell me that it was all folklore.

[Babiuc] I will not say it was all folklore. I do not believe that I am the best person to talk to about these secrets because I have insufficient data and never concerned myself with...

[Adamesteanu] But you were still Minister of Internal Affairs....

[Babiuc] I will tell you what I know. Because of these aversions to the *Securitate*—that are, without a doubt, well-founded—when the *Securitate* was broken off from the Ministry of Internal Affairs, the archive was given to the SRI, while the Ministry of Internal Affairs today has a very meager archive. It has only the dossiers of former staff employees. But the State Archive is the only sector I have succeeded in demilitarizing. Where it had been a military sector from top to bottom, I can tell you that when I left Internal Affairs, it had only a military guard. All the rest of the functionaries were civilian, starting with the director general and ending with the lowest employee. Precisely because it seemed to me that this was not an institution of a military nature and the military did not belong there other than to guard it.

[Adamesteanu] But, still, manuscripts that were confiscated during arrests have not yet turned up from the State Archive....

[Babiuc] We have to draw the proper distinctions. In accordance with the laws that we had, very many archives and old documents were given to the State Archive, a procedure that still applies today. There is a national archive bill that will, I believe, regulate these things in an appropriate manner. But here you have touched on another question connected with documents confiscated by the *Securitate* at the time of certain searches, trials and convictions. They do not exist in the State Archive. I can tell you further that at Justice, when, at the request of some friends, I looked for a couple of dossiers of people put on trial, where it was known that things were confiscated (notebooks with poems), I discovered that they no longer existed anywhere. Thus the dossiers were "sanitized" of certain things. About three or four months ago I also received from Mr. Laurentiu Ulici of the Writers' Union, a notice to try to recover things confiscated in an abusive manner. I wrote to the Ministry of Justice, to the Prosecutor General, to the SRI and to the Ministry of Defense. Thus far I have received replies from the Ministry of Justice, the Prosecutor General and the Ministry of Defense that those kinds of

things do not exist in their archives. The Romanian Information Service has thus far made no response to me. A few days ago I went back to that first letter. It seems unnatural to me that if these manuscripts still existed somewhere, they would not have gotten back to their authors, to the scientific institutions or to their families. It is something that we, the Commission for Abuses, would do with pleasure if we could.

[Adamesteanu] But where could the confiscated things be?

[Babiuc] It is hard for me to give you an answer because there is need for a bit of good will on the part of those who have the archives, i.e., the four institutions I have enumerated. I believe they should be looked for in at least two places: in the archives of the SRI (thus someone who will make a serious and persistent application) and in the archives of the Ministry of Defense (which deposited and is still depositing a part of the archives of the former *Securitate*). But that is only a supposition.

[Adamesteanu] What do you think will become of the SRI? There is pressure in this direction, also connected with the stipulations regarding the former *Securitate*.

[Babiuc] Yes, there is pressure, but in this case there is also resistance. Do not forget that an old mentality still exists: That it is more important to be sure of something than to have an uncertain victory. Here they rely on the fact that if the states have any leaders, in the final analysis we have to enter into relations with them, whether we like it or not. Therefore, in the short term I do not see fundamental changes in the organization of the SRI (by short term I mean for the next two years). For the long term, there will be changes because in the matter of organization we find verified models in the democratic countries, including in prewar Romania. But if we look at the intelligence services, we discover a very clearly delineated principle; these services are subject, first of all, to the executive because what they do is an activity in the domain of the executive—that concerning national security, regulation of the state, etc.

[Adamesteanu] Well, then, in what way will changes occur at the SRI? Personnel changes?

[Babiuc] Yes, certainly personnel changes. In any institution the important factors are structure, personnel and the goals that the leadership sets. A bad goal set from above is likely to be totally compromised, even if the people and the structure were good.

[Adamesteanu] Let us turn to General Florica's report. Is there any possibility that these cases will be resolved in the courts?

[Babiuc] These are very weak cases for saying we have reasons for putting these people on trial. If other documents do not turn up, as well, it means we will have muddled the waters a bit, fussed around a bit, and that will be the end of it. They will remain simply remain unresolved.

[Adamesteanu] The interpretation in vogue is that of a conflict between the Army and the Ministry of Internal Affairs. Do you believe that is correct?

[Babiuc] Among organs of control of diverse institutions there exists, on the one hand, loyal competition, and, on the other, a certain jealousy over what the one does and the other does not do, or because of the results obtained by the one and not by the other. It is a normal and beneficial rivalry up to a point, but it becomes dangerous when it gets to the point of sabotage and incursions by some against others because one is more known and more appreciated. It is not out of the question that something of this sort is involved here. On the other hand, these rivalries also have another explanation: The Financial Guard was and is better paid than the Police Department, a reason for dissatisfactions that degrade collegial ties.

[Adamesteanu] What is your opinion of the Ministry of Internal Affairs, past and present.

[Babiuc] The Ministry of Internal Affairs, (both the ministerial apparatus and the Police Department) has to be a civilian ministry. Here, too, we have a military structure inherited from the Soviet model. In civilized and democratic countries (including prewar Romania), the Ministry of Internal Affairs was a civilian ministry. Alongside a repressive component (inherent) there also existed another, of public administration. The Ministry of Internal Affairs also controlled the Bureau of Statistics and the National Tourism Office. Prefects were named by or at the suggestion of the Minister of Internal Affairs. Citizens came to the Ministry Internal Affairs first of all in connection with problems of day to day life, of administration, not for the repressive part that makes a scarecrow of this ministry.

I tried to occupy myself with the idea of the dignity of the ministry, to make an appropriate structure among officers and noncoms (there were and still are too many officers), I tried to see where the military positions could be discontinued, leaving only jobs for civilians. I tried to find out what had to be done to effect the demilitarization of the ministry. I brought in a deputy minister state secretary, a civilian; I had a civilian advisor; I changed the setup of the ministry so that jobs could be held by civilians and not just by the military. But to accomplish the demilitarization much more was needed, including two very important things: a change of mentality connected with the need for this ministry to be military and that we not make people lose certain advantages that military status brings them (salary increases, medical assistance aid, etc.), because the life of a policeman is very hard, full of privations and danger, more than the public realizes. If we put aside a relatively small group at the top of the police department, there are few who are against demilitarization. Demilitarization does not mean that the military will disappear totally because there will always be policemen in uniform on the street. There are also people who do not want demilitarization

(it seems that the first who does not want it is the person heading the ministry at the present time).

In my opinion, the ministry should be headed by a civilian who would have as his objective (at least for a later stage, after a year or two) the demilitarization of the ministry. The reason is that there is an essential difference between a civilian and a soldier: The civilian policeman knows that the principle criterion governing his behavior is the law, while for a soldier the principle criterion is the order of his superior. Our socialist military and our socialist Securitate, composed of military people, always carried out the orders of their superiors. Rare were the ones who said "no, because the law provides otherwise." There is a series of international documents worked out for policemen, invariably stipulating that the police are obliged to carry out only lawful orders.

[Adamesteanu] How did you manage to get people to like you as minister of internal affairs?

[Babiuc] I did several things in a deliberate way: I tried to make the police understand that they are a mechanism for the protection of the citizen. I met with the Bucharest police and traveled throughout the country. I told them that in Chicago I saw a small statue of a policeman leading a child by the hand, the policeman appearing as protector. This is the ideal that the Romanian police need to achieve: To really become an institution that protects the citizen from those who break the law and disregard public order. In my discussions with the policemen I did not pose as a professional; I told them what I want: As professionals, they should behave in such a way as to achieve what I am telling them. I told them that I want quiet in the city, in Bucharest first of all, but also in the whole country; I want them not to abuse their power, to behave nicely to people; and if they do not do that and there are complaints, I will not ignore them. On those grounds I dismissed a significant number of policemen because of their behavior; others were put on trial. I do not remember the exact numbers (tens or hundreds) of policemen punished, thrown out or put on trial as a consequence of the investigations conducted by the Military Prosecutor because they behaved improperly, but it was a rather large number.

I believe that a third element that contributed to the change for the better within the ministry and the police was openness. There are few secrets in this Ministry of Internal Affairs, that formerly was shrouded in mystery. Certainly, what we do is of interest to every citizen. We have nothing to hide, neither in terms of our objectives, nor in the means by which we operate. Of course, when there is a concrete question, I, as a policeman, have no reason to make public how I am preparing to intervene if something happens, but only to make it known that I will intervene. However, I do not pretend to take questions before doing something, but rather to intervene if something happens. The moment the policeman knows that what he does can be loudly criticized, that he can appear in the newspapers, that the world can get to know him,

he begins to be more attentive. That is, openness is of service to the institution; it does not do it a disservice.

[Adamesteanu] I am amazed how the trial of Gheorge Robu-Vadim Tudor ended.

[Babiuc] So am I. The facts under discussion were, as any lawyer can confirm, in the realm of slander. The normal resolution was to punish the one who commits the slander. This trial lasted far too long, but the resolution is, without a doubt, erroneous. I hope that Mr. Robu appeals; perhaps he will achieve a good resolution. This kind of precedent can only encourage those who resort to dishonest behavior.

[Adamesteanu] Was there pressure to hush up the case of General Florica?

[Babiuc] I do not know, but I do not believe it is so easy to hush things up today. There is only one way to hush things up: If I can convince him not to take out any more documents, other elements in support of the evidence that has already appeared in the press. Otherwise, you cannot hush things up. That is what I believe, perhaps naively, if you will.

[Adamesteanu] At the present time the FDSN has issued a statement about making the parties of the extreme right, of legionnaire origin, illegal. Do you see that as a solution?

[Babiuc] What comes to mind is the response given by Mr. Ratiu in connection with the Communist Party. In a democratic country we must accept the idea that any party can function. But on the other hand, we see that according to our laws the extremist parties should not be able to function, regardless of what denomination they are, whether of the left or of the right. We know that at times of economic and social difficulty, extremist movements find propitious territory. Because they have this advantage: By being more simplistic in their thinking, they dispose of things more easily and find an audience, in particular, among the young and the dissatisfied. From this point of view, the extremist movements of Marian Munteanu and other extremist movements that exist today in Romania (including some that are in Parliament) find their audience among the less educated, the more dissatisfied, those with various kinds of melancholy. I still believe that the danger is much smaller than it seems today. I am sure that many of those who today would be disposed to embrace this legionnaire ideology do not have a good understanding of either the past or of the real significance of some of these movements. We should not forget that in countries with a democratic tradition we see today the resurgence, within certain limits, of extremist movements. I do not know if what is happening here is a matter of contagion or the result of some local conditions.

[Adamesteanu] I would like to ask your comments on the postponement of Romania's entry into the Council of Europe.

[Babiuc] The admission of our country into the Council of Europe is a question that preoccupies all of us and all of us are dissatisfied with the manner in which it is being resolved. I believe that there are two aspects here that have to be considered: one a matter of substance, and one of form.

Under the substantive aspect we cannot ignore the fact that at least some of the objections raised against us, such as those concerning the impartiality and control over television, the demilitarization of the Ministry of Internal Affairs and the Police, control over the SRI or the organization of the Prosecutor's Office, are well-founded. All of these can, however, be taken care of quickly—and I stress quickly—if there is the political will to do so. To no less an extent, I cannot but remark that they are resorting to two kinds of measures in the framework of the Council of Europe and that more stringent criteria are applied to us than to other countries, on whom the same demands are not made as on us. I also believe that there are explanations here, too, among which I would advance two: one concerning the government's reduced credibility abroad, of such a nature as to raise the demands of those on the Council, and second, the lack of friends to support us, which represents a minus for our external politics. To no less an extent, I hope that our admission into the Council will take place as soon as possible; it would be a victory for our country, but also, I believe, for Europe.

[Adamesteanu] You have said that someone who has a dossier as a secret police collaborator should no longer enter political life. Does this mean that you are not afraid that someday some dossier about you will turn up?

[Babiuc] It shouldn't.

* Historian Views Relations With Ethnic Hungarians

93P20181A Bucharest LIBERTATEA in Romanian 8-9
May 93 p 2

[Interview with Mihnea Berindei, vice president of "Est Libertes," by Roxana Costache; place and date not given: "I Find That Both Romanians and Hungarians Feel at Home in Transylvania"]

[Excerpts] [LIBERTATEA] Both in the media and during press conferences it has been stated that you had a hand in influencing certain organizations and leaders by introducing them to certain individuals from abroad. And I read what you said by way of comment. You did not deny it! You emphasized, however, that you use your connections to support Romania.

[Berindei] That remains to be seen. I'm primarily interested in lending support to certain associations, organizations, and movements such as the GDS [Group for Social Dialogue], the Civic Alliance, and the PAC [Civic Alliance Party], as they were at their founding, because I feel closer to them. Therefore, it is a partisan measure. I do not deny it.

But it is necessary to back up a little to better understand the situation. From 1977 until 1989 my relationship with Romania focused on defending human rights. Consequently, I concerned myself with those few people who did something to oppose the regime. It appeared logical to me that afterwards I should continue to be interested in how these people developed. Quite a few became politicians, made their names known in political circles.... Things changed. Since 1990, I have been interested in all these things as part of an association that investigates postcommunist societies. I concern myself with Romania.

[LIBERTATEA] Mr. Berindei, you were one of the signers of that (famous) letter that was issued from Budapest before the Revolution.

[Berindei] Have you read it, are you familiar with its contents?

[LIBERTATEA] Yes, it was published in LUPTA.

[Berindei] That's right. That magazine represented a conciliatory move between emigres and Hungarian democrats, who were fighting to change the government in power at that time.

[LIBERTATEA] Very well, and were you criticized for signing that document?

[Berindei] I even received death threats!

[LIBERTATEA] I am not going to hide the fact that I too criticized your gesture, because, despite your good intentions—after all, what you do is always in support of Romania, isn't it?—the document included ideas that could easily be exploited later on. For example, the ideas of reciprocity, of a common space, etc. Even today the backlash from this document is causing us trouble, as is evident from parliamentary deliberations, specifically those deliberations that focus on minority relations.

[Berindei] You are shifting gears here, moving from the context of 1989 when that document was signed to something that is happening now.

[LIBERTATEA] I'm not responsible for that, it's just the way it goes.

[Berindei] Well, in fact I'd want to say...I would say the same thing today, all of it, because the idea of reciprocity is necessary, especially in a city like Timisoara where it is evident that very diverse communities, with very different outlooks, were able to create a harmonious environment evidently tailored to the needs of that city. This fact is undeniable. Likewise, we cannot deny that the openness that resulted was a good thing. I do not believe that we can aspire to being accepted in Europe with rights that are absolutely equal to those of other European countries if our behavior is inconsistent with European standards.

[LIBERTATEA] In what regard do you believe our behavior to be inconsistent with European standards?

[Berindei] Well, that letter needs to be looked at in context, written as it was at a time we did find ourselves isolated. I do not see why today, when things have changed a lot, we are not trying those things. If tensions still persist, that means their causes persist too! That letter can in no way be interpreted as suggesting that Transylvania be ceded. The letter merely set forth the conditions necessary for Romania's entry into Europe. Namely, it called for the spiritualization of the borders!

[LIBERTATEA] What do you mean exactly by "spiritualization" of the borders?

[Berindei] It means that the border should not be a barrier; it means that the border between two nations that historically may have been at odds with each other, such as France and Germany, should not in point of fact exist. For example, an individual could live in a city near the border and work in a city across the border. That's what "spiritualization" means. In your closest and most distant neighbors, you should seek out the qualities which make them unique. It is clear that this border spiritualization can only evolve with time. In the former communist countries tensions have built up, flare-ups are a possibility, all the pent-up frustrations are potentially explosive and nationalism was misused and perverted from a positive emotion, so that only its adversarial, dark side shows.

[LIBERTATEA] I ask you the following out of simple curiosity. Did it ever occur to you that this letter, which was full of good intentions, might become a "lightning rod" because its message, which was pitched at a "theoretical European level," might be misunderstood?

[Berindei] I do not think so, because the only way to really help is for you to speak as sincerely as possible and to say what you believe. It could be that the letter might need explanation. So you add that. That is why I also said that the road is bound to be a very long one.... The letter, in ten sentences, said what needed to be said, but did not develop its ideas. Each one of the sentences in that letter could be the subject of a study or a round table discussion. That is what civic and political education are for....

[LIBERTATEA] You are a historian and a political analyst. Within the context described, how do you see the issue that is so controversial in Romania today, of local independence buttressed by independence in the sense of protecting ethnic minorities?

[Berindei] It is clear that many things are being confused here, but it seems evident to me why indeed the UDMR [Democratic Union of Hungarians in Romania] is proceeding in such a manner. If administration at the local level were really as it needs to be, half the problems would take care of themselves. But the money for that just isn't there....

[LIBERTATEA] Therefore, there would be no discrimination between Romanians and ethnic Hungarian?

[Berindei] That's not what they say! I have spoken with [UDMR President] Bela Marko and I have read what Gyorgy Frunda has written. They are asking for the same thing that I am talking about. They want to live.

[LIBERTATEA] It just so happens that I too spoke with Bela Marko and even participated in the UDMR Congress in Brasov. There is not much similarity between your views and theirs. And my opinion is that some drawbacks are evident, including not implementing the entire concept of local self-determination. But the unfavorable outcomes are perceived equally both by Romanians and Hungarians.

[Berindei] However, when local authorities and doctors, who are not Hungarians, are appointed by Bucharest, this can lead to discrimination.

[LIBERTATEA] Why do they need to be chosen according to ethnic criteria and not according to merit? Why should this discriminatory guideline exist?

[Berindei] Of course, they need to be appointed based principally on qualifications. But, in a village in which the population is Hungarian, it is only natural that there be a Hungarian-speaking doctor, a teacher of the mother tongue.... That does not mean that Hungarians do not need to learn Romanian. This is exactly how we arrive at one of the examples of reciprocity about which I was speaking. It is an asset to speak two languages and have access to two cultures.

[LIBERTATEA] Within the same context, what does positive discrimination mean, in your view?

[Berindei] The fact that there are minorities that are at a disadvantage. For example, in Scandinavia strict proportional representation would place certain minorities at a disadvantage, so they are given additional seats.

[LIBERTATEA] We have that too, in the case of representation in Parliament, for example.

[Berindei] I do not see that Hungarians have been given additional seats.

[LIBERTATEA] I have held endless discussions about that because often some say that they deserve privileges.

[Berindei] The fact that they are being helped does not constitute a privilege! What, after all, is in the interest of the majority? Surely, that there be no conflicts with minorities. [passage omitted]

[LIBERTATEA] Well, do you know the proverb "Give someone an inch and they take a mile."

[Berindei] That's not a good example.

[LIBERTATEA] Give me a better one.

[Berindei] I have in mind the following. We need to realize that historical disagreements in this case are based on two different interpretations of history. Romania's great frustration was built up over centuries and

collides with Hungary's great frustration, which believes that it was unfairly treated after World War II. [passage omitted]

[LIBERTATEA] But Transylvania cannot be looked at through the "prism" of the history written in Budapest or Bucharest! Transylvania has its own history! Therefore, let's learn each version, which I would prefer. [passage omitted]

[Berindei] We need to try to arrive at a common version of history.

[LIBERTATEA] And what would this common version be, in your opinion?

[Berindei] That which gives everyone his due. [passage omitted]

[LIBERTATEA] You speak of taking into account a nationalist view when it comes to the "wisdom" of looking at history through the perceptions of others, or to handling minorities carefully for the sake of ethnic preservation, and when...

[Berindei] It's not the same thing! Hungarian minorities are now in a situation comparable to that of the Romanians who were not living in their homeland and were told "This is not your homeland, you are in ours." Isn't that so? I believe that both Romanians and Hungarians are at home in Transylvania. That is everything! Thus, they have the right to insist on their own true history and should not have to learn one that distorts the truth...

*** Allegations of Corruption Against Mayor Funar**

93BA1057A Bucharest *EVENIMENTUL ZILEI* in
Romanian 24 May 93 p 3

[Statement by Cornel Suci, Alba County Auditing Directorate inspector, with editorial comment by Mirel Curea: "Some 114,000 Lei Were Taken From the Payroll Office of Cluj Municipal Hall So That Miss Romania Could Buy Herself Dresses in Which To Be Presented at the President of Romania's Office"]

[Text] Inspector Cornel Suci Was Dismissed by Order of the Ministry of Economy and Finance Before He Completed This Audit at Cluj Municipal Hall.

"The action to audit the administrative units in Cluj County began on 4 February 1993, according to the audit report for February. For purposes of greater honesty and to eliminate suspicions these audits of public institutions are always performed by specialized organs recruited from other counties. Audits of this kind are performed every two years over the execution of the public institutions' budgets of incomes and outlays.

"As long as I was allowed to work on this audit I was able to find a number of illegalities in the management of public monies and of Cluj Municipal Hall's property. I also found flagrant violations of laws, namely Law No. 10 of 1991 (on public finances), Law No. 36 of 1992 and

other regulatory enactments. Inasmuch as I was finding these illegalities I made the mistake of reporting them in good faith to the management of Municipal Hall. But in order not to anticipate, I list only a few of the findings here:

"—On the basis of a decision of Cluj Municipal Hall's, the sum of 2.7 million lei in fees for use of roads and fees for use of transport means was assessed and collected from individuals and juristic persons in Cluj, in flagrant violation of Law No. 10 of 1991 (Article 25 Paragraphs b and c), which prohibits levying a tax or fees of any kind other than those specified in the annual budgetary law (Law No 36 of 1992). The respective sums were levied without making, according to the law, a study of the citizens' ability to pay the fees.

"—A number of premises of party headquarters have been rented at ridiculous rentals (3,000-5,000 lei per month) by parties which, in order to obtain sources of financing, have sublet them or associated themselves with various trading companies from which they are getting incomes in the millions. Moreover Municipal Hall did not observe HG [Government Decision] No. 1228 on Methods of Granting Administrative Renting and Tenancy, in that no public auctions were arranged and the respective premises were granted to trading companies having various connections with Municipal Hall. One of the arguments with which Mayor Gheorghe Funar justifies this illegality is that if he had auctioned the premises the Hungarians would have taken them.

"—Municipal Hall has concluded partnership contracts for premises belonging to RAAIFL [expansion unknown] (the former ICRAI [Enterprise for Housing Construction, Repair, and Administration]). In the eyes of the law there are no contracts.

"—Public monies are mismanaged in that the reports on operations compiled by the autonomous administrations under local jurisdiction are not certified by the economic section of Municipal Hall. These reports are enormously padded and were accepted for payment over Deputy Mayor Liviu Medrea's signature. For instance, during January and February the report compiled by the RADP [Administration of Public Domain] obligated Municipal Hall to pay over 8 million lei for snow removal. According to the weather report for that period, it did not snow at Cluj.

"—The same situation was found for December, when the RADP submitted a charge for outlays of more than 16 million lei for cleaning green spaces. In the control organs' opinion this charge is not based upon actual facts but upon imaginary ones, for the simple reason that the green spaces do not have to be cleaned in December.

"—Municipal Hall's property was not inventoried within the legal time limits or in its entirety. Intentionally or not, a number of very valuable fixed assets were left out of the inventory, such as color TV sets and computers.

"—The debit account includes sums that were not recovered for months.

"—The administrative personnel of Municipal Hall, from the head clerk to the mayor, have collected over-time payments even though the provisions of Law No 40 (on pay of persons in the state administration) specify that this can be done only for executive personnel and only within the limit of 360 hours a year, if the hours cannot be compensated for with time off. Liviu Muresan, technical director of Municipal Hall, heads the list with 406 hours and is closely followed by Gheorghe Funar and Liviu Medrea (former deputy mayor and now a promoted subprefect). The hours illegally paid for total over 3,600 and amount to the payment of more than 500,000 lei.

"—Liviu Muresan, the present technical director, has no justifying record whatever in his personal file that would legally qualify him for his job. His file contains only two addresses with the same registration number but with two different calendar dates of issue whereby he was transferred from the Ministry of National Defense to Cluj Municipal Hall for an indefinite period. Transfer for an indefinite period is also prohibited by the laws in force.

"—In the course of 1992 Municipal Hall clocked and paid 15 RADP employees in violation of the legal provisions, since RADP is required to pay its employees.

"—The Dacia Feliz Bank's driver is also paid by Municipal Hall without having a work contract or agreement, without being clocked and without performing any activity.

"—In February Mr. Liviu Muresan withdrew 114,000 lei from Municipal Hall's pay office, with which sum Angela Nicoara (Miss Romania) bought herself two dresses in order to be presented to President Ion Iliescu at Cotroceni.

"—I had ascertained all the above personally by 28 February 1993, the date of my dismissal from the audit action by order of the Ministry of Economy and Finance. The telex whereby I was dismissed, which was received at the address of the Alba County Auditing Commission, left the MEF [Ministerul Economiei si Finantelor] as No. 17 of 21 February 1993 and arrived as No. 2 of 22 February 1993. My dismissal was brought about by the actions taken by Deputy Ioan Gavra, who had threatened me with my ruin beforehand, while I was doing my duty as an inspector.

"—I repeat, I was dismissed because of my accurate and legal findings before I finished, and the audit document does not include even one of the above findings, which I can prove at any time.

"In this way I am notifying the legislative authority of Romania of the gravity of the situation in Cluj Municipal Hall and of the trafficking in influence that Mayor Gheorghe Funar's supporters are doing in order to cover up his illegalities."

[Box, p 3]

A new sheet, perhaps the most sensational one, is being added today to the voluminous "dossier" that EVENIMENTUL ZILEI has disclosed to Citizen Gheorghe Funar. It is a matter of the dismissal of a financial inspector because of his honesty while he was performing an audit at Cluj Municipal Hall.

In the hope that the matters will be clarified and that the daily threats to which he has been subjected will no longer hang over him, Mr. Cornel Suciu, an inspector of the Alba County State Auditing Commission, is addressing the Government and Parliament of Romania via EVENIMENTUL ZILEI. He has told us that he wishes to testify if the criminal complaint lodged against us by Gheorghe Funar comes to trial. Moreover, Mr. Cornel Suciu has assured us, as a specialist in the field of finance, of the veracity of all the materials published in our daily concerning "the establishment of arbitrary rule in Cluj."

*** Drop in Blood Donations' Causes, Remedies**

93BA1108A Bucharest SANATATEA in Romanian May 93 pp 5, 26

[Interview with Colonel Doctor Tiberiu Georgescu, director of the Hematology Institute, Bucharest, by Lucian Huiban; place and date not given: "Only Blood Can Replace Blood!"—first paragraph is introduction by Huiban]

[Text] In the last two or three years, the number of blood donors, especially unpaid volunteers, has dropped precipitously. I discussed the reasons that led to this drop, as well as the ways by which people could be persuaded to donate blood, with Col. Dr. Tiberiu Georgescu, director of the Hematology Institute of Bucharest.

[Huiban] Even though most people know already that it is not a bad thing, Dr. Georgescu, let us remind our readers why giving blood is necessary.

[Georgescu] Giving blood is a vital necessity, since it is a substance indispensable to transfusions. We need more blood because surgical procedures have grown in their degree of complexity. Certainly, this is carried to excess in some situations, but that is not what we are discussing here. And then, the technical revolution, besides bringing all kinds of benefits, has also led to a heightened risk of accidents which also cause the loss of blood. I might also mention disasters and also regional wars, which are growing more extensive. And there is another thing, perhaps the most important thing, and that is that only blood can replace blood. This is where it becomes apparent that people must give blood. A satisfactory

level of blood is assured when 5 percent of the country's population is willing to give blood.

[Huiban] Why do you think the number of donors has fallen off?

[Georgescu] In 1988 to 1989 we had about 800,000 blood donations nationally. Today that number is at 400,000. We should also take a look at what categories of donors there used to be: paid or volunteer? There were districts in which almost all the donors were volunteers, while in others only 50 percent were. Very few donors came on their own initiative. Most were thinking of the material benefits, of the meal tickets. Many were forced by Communist Party secretaries, who ordered them to give blood. There were also those "belonging" to the person needing a transfusion (in other words, relatives, friends, and fellow workers). And there was also a network of Red Cross workers in all industrial concerns and institutions, who pushed the idea of giving blood.

Now there is an educational void. We are anticipating a collaboration with the National Council of the Red Cross, not because it is funded through Government Order No. 999 of September 4, 1990, but rather on the basis of an older collaboration which had been beneficial. And the Red Cross too has blood drives as one of its goals.

[Huiban] What would need to be done to raise the number of blood donors? How can people be persuaded to give blood?

[Georgescu] There is a need for an educational process, which will take time. Those who are assigned to educate people in this area must be well prepared and must know everything necessary—in other words, they must be trained. The most important thing is being able to show someone, regardless of that person's cultural level or social position, everything that is important. For that, you need tools, teaching materials—in other words, films, video cassettes, flyers, etc.

In this regard, I believe that it is incumbent upon the Red Cross to play an important role. I would also like to say that there is a worldwide tendency to repudiate paid blood donation in favor of voluntary donation. The future belongs to volunteers. Besides the Red Cross, the associations of voluntary blood donors can help us. These associations are already at work in several districts. In Western countries, these associations are powerful not only through their members but also through the funds they raise by donations from individuals, humanitarian organizations, mayors' offices, and town councils. They have rest homes, day-care centers, and funds in banks, and they can enforce compliance with the law and improvement of the act of giving blood—for example, through buying machinery.

[Huiban] What are the official, legal regulations concerning the giving of blood?

[Georgescu] They are Government Order [GO] No. 999/1990, GO No. 132/1992, and GO No. 73/1993. The last two complete the first. The 1993 order sets out the rights of donors. Those who are paid for giving blood receive 1 leu per gram if they are Rh positive, or 2 lei per gram if they are Rh negative; in addition, they receive a meal ticket valued at 570 lei. Volunteer donors are at an advantage, because they receive valuable vouchers for food items valued at 1,200 lei. And if they give blood five times within the space of two years, they will receive a 5,000-lei reward and other incentives.

[Huiban] Where will the funding for these expenditures come from?

[Georgescu] From the budget of the Ministry of Health.

[Huiban] I have heard, from a source who wishes to remain anonymous, that the test kits for AIDS are about to run out. What will you do?

[Georgescu] I would like to reassure the magazines's readers that in our country all blood is collected under strict medical supervision. Every blood draw is made with a disposable kit. And after the blood has been drawn it is screened for AIDS, hepatitis B, and syphilis.

There are sufficient funds, which are allocated on a priority basis, for these screening tests. We also receive aid through the PHARE [Economic Reconstruction Aid for Poland and Hungary] program. In any case, only blood suitable for transfusions reaches our hospitals.

[Huiban] One publication wrote that the blood supply has almost run out....

[Georgescu] That is not the case at all. Blood cannot be stored for more than a limited period of time. Every hospital has its own supply, which it replenishes continually.

[Huiban] What will you do if a disaster strikes, when a lot of blood would be needed for the wounded?

[Georgescu] We are counting on the many people who, under such circumstances, line up at the Hematology Institute to give blood.

[Huiban] Thank you for granting us this interview.

[Georgescu] Thank you. I would like, once more, to call on all citizens to give blood, for the sake of those who need transfusions.